



MARCH 2007 ECONOMIC INDICATORS REPORT

NASSAU COUNTY OFFICE OF LEGISLATIVE BUDGET REVIEW

HIGHLIGHTS:

- Although, unlikely, Alan Greenspan can not rule out the possibility of a recession late in the year. (p. 1)
- January 2007 saw a surge in closed home transactions. (p. 2)
- National retail sales were unchanged in January 2007. (p. 3)
- Consumer health care costs experienced the greatest annual appreciation. (p. 5)
- Lodging industry occupancy rates fell over 7%. The decline would have been worse had it not been for airline contracts. (p. 6)
- Regional consumer confidence fell from a monthly perspective. (p. 6)

The economy appears to be in a precarious position. Most analysts are forecasting slow, albeit positive growth. However, in a recent speech, former U.S. Federal Reserve Chairman, Alan Greenspan, stated that, "It is possible we can get a U.S. recession toward the end of this

year, but I don't think it's probable."¹ Regionally, the economy saw positive annual growth in closed residential housing transactions, employed residents, and non-agricultural jobs. However, regional consumer confidence fell, consumer prices rose, retail sales were unchanged and downward pressures were detected in the lodging industry.

Residential Housing Market

In January 2007, bargain hunters pushed the number of closed monthly transactions to a new high in Nassau County. Just as average closed Nassau County residential prices fell 3.1% from the prior year, 826 houses changed hands. That was the greatest amount of closed transactions recorded in January in Nassau County since 2003. Moreover, a recent study reveals that most of the bargain hunting is probably occurring on the North Shore. According to Prudential Douglas Elliman's first Long Island market overview, homes on Nassau's North Shore witnessed an annual average price decline of 13.4%. The median price on the North Shore recorded a 7.8% decline from the prior year.²

¹ "Greenspan: U.S. Recession Not "Probable"", ABCNews.com, February 27, 2007.

² Luhby, Tami, "High Costs, Low Deman

Chart 1
Nassau County Closed Residential Transactions by Month
Through January 2007

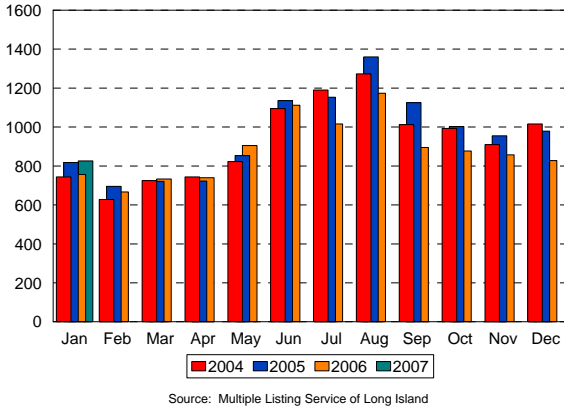
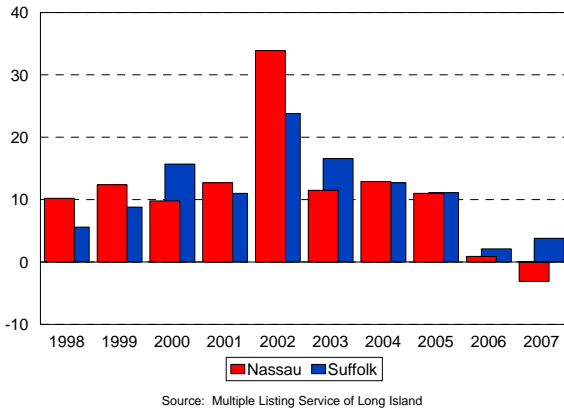


Chart 1 details the number of closed residential transactions in Nassau County by month since 2003. January's 826 number was 9.3% higher than January 2006, and 36.8% higher than January 2003. The recent surge in closed transactions is beneficial to County Clerk fee revenue which rises in tandem with the number of transactions processed.

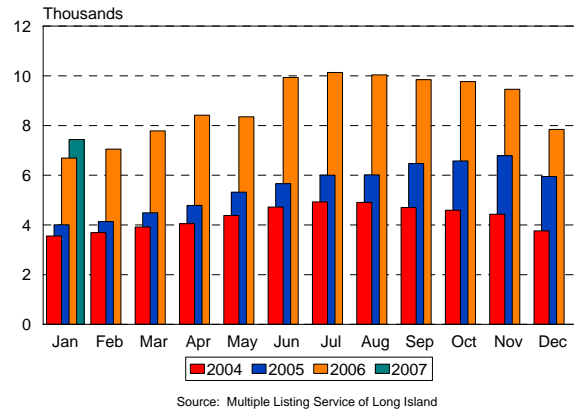
Chart 2
Annual Percentage Change in Residential Housing Average Closing Price
2007 figures are projections based on prices through January 2007



As detailed above in chart 2, if current trends continue, Nassau County will end 2007 with a decline in residential housing prices of 3.1%. In Suffolk County, if current trends continue, residential housing prices should end 2007 having grown 3.8% in terms of average closing prices. Similar trends are seen when median prices are analyzed. From an annual perspective, median home prices in Nassau County have decreased 6.25%. In Suffolk

County, compared to this time last year, median home prices have risen 1.9%.

Chart 3
Nassau County Residential Inventory Levels
Through January 2007



Nassau residential inventory levels have increased by 11.2% since January of last year. In Suffolk County residential inventory levels have risen 13.1% from January 2007. Although, inventory levels rose from the prior year, they fell 5.1% and 2.7% in Nassau and Suffolk Counties from the previous month. Moreover, the 11.2% and 13.1% annual increases are significantly below last years 67.0% and 63.9% annual Nassau and Suffolk residential inventory increases.

Looking forward, despite the recent uptick in closed transactions, economists opine that the housing market will remain slow throughout 2007 and in the early part of 2008.

According to the National Association of Realtor's chief economist, unusually warm weather helped boost sales in January and the winter storms that disrupted much of the country in February could negatively impact the housing market. Experts do not see any underlying strength in the housing market and believe that slow job growth coupled with rising interest rates will hold back home sales and price growth in 2007.³ Echoing these sentiments, Home Depot warned that current

³ Roney, Maya, "Housing Worries Linger Despite Jump", Businessweek.com, February 27, 2007.

fiscal year earnings will fall 4 to 9 percent as the residential construction and housing market is not expected to improve until late 2007 and early 2008.⁴

Not only is the slowdown projected to continue nationally, but the regional housing market is expected to experience a similar decline. According to economist Pearl Kamer, “I think we’re still at the beginning of the down market, and I think we’ll see gradual declines this year and possibly even into next year before the market stabilizes.”⁵

Personal Consumption

Despite steady interest rates, holiday gift card availability and higher average tax returns, consumer spending was unchanged in January 2007. According to the Commerce Department, retail sales were unchanged from the prior month in January 2007 and experienced a monthly increase of 1.2% in December 2006. Declines in auto sales, sales at gas stations and sales of consumer electronics, kept the overall index constant.⁶

In February 2007, the Federal Reserve kept the benchmark U.S. interest rate at 5.25%.⁷ Holding interest rates steady enables those living with adjustable rate debt to maintain their existent purchasing power.

However, consumer purchasing power actually increased in January since individuals had the use of holiday gift cards and increased tax returns. According to industry analysts, January retail sales have been growing in significance over the past five years because of

the impact of gift cards. Retailers don’t include gift card sales in their monthly tallies until the cards are redeemed, and the bulk of the cards given for the holidays are used in January.⁸ Additionally, according to the Internal Revenue Service, as of February 17, 2007, \$86.9 billion of refunds have been processed. That is 5.8% higher than this time last year. The average return was \$2,733, up 3.6% from the previous year.⁹

For a more detailed analysis of consumer finances and household purchasing power, see OLBR’s [“Consumer Finance Report”](#), released concurrently with this report.

Local Area Employment Figures

January 2007 was a positive month on the employment front from an annual perspective. However, all areas surveyed fell behind from a monthly perspective.

From an annual perspective, all areas surveyed witnessed an increase in employed residents coupled with decreases in both unemployed residents and the unemployment rate.

The opposite was true from a monthly perspective. Compared to this time last month, there are less employed residents, more unemployed residents and a higher unemployment rate.

Similar trends were seen in the Long Island labor force figures. In both Nassau and Suffolk Counties, there was positive growth from an annual perspective as well as monthly declines. The one exception was New York City labor force figures. New York City experienced positive labor force growth from both a monthly and an annual perspective.

⁴ “Home Depot Eyes Extended Housing Slump”, [CNN/Money.com](#), February 28, 2007.

⁵ Dalton Jr., Richard, “Housing Market Watchers See Encouraging Signs that the So-Called Bubble Never Burst”, [Newsday.com](#), February 15, 2007.

⁶ Kavilanz, Parija B., “Retail Sales Strong Despite Miss”, [CNN/Money.com](#), February 14, 2007.

⁷ “Fed Rate Holding at 5.25%”, [Newsday.com](#), February 1, 2007.

⁸ D’Innocenzio, Anne, “Retailers Report Mixed Sales in January”, [Newsday.com](#), February 8, 2007.

⁹ “Hanging Up on a Refund”, [Long Island Business News](#), February 23, 2007.

Table 1

Comparison of Employment Statistics (figures in thousands)					
	<u>1/07</u>	<u>12/06</u>	<u>1/06</u>	<u>+/- Prior Month</u>	<u>+/- Prior Year</u>
Nassau					
Employed	663.9	676.6	660.0	-1.9%	0.6%
Unemployed	26.8	21.5	27.9	24.7%	-3.9%
Unemployment	3.9%	3.1%	4.1%	25.8%	-4.9%
Suffolk					
Employed	747.3	761.7	742.9	-1.9%	0.6%
Unemployed	32.8	25.9	34.3	26.6%	-4.4%
Unemployment	4.2%	3.3%	4.4%	27.3%	-4.5%
NYC					
Employed	3,623.0	3,654.0	3,577.0	-0.8%	1.3%
Unemployed	201.0	154.0	214.0	30.5%	-6.1%
Unemployment	5.3%	4.0%	5.6%	32.5%	-5.4%

Source: NYS Department of Labor and US Bureau of Labor Statistics

Table 1 above details monthly and annual changes seen in regional resident employment, resident unemployment and unemployment rates.

Nassau-Suffolk Non-agricultural Employment

A similar monthly versus annual dichotomy was recorded in the January 2007 job report. From an annual vantage point, job growth surpassed the 1% mark indicative of a healthy economy. However, from a monthly perspective, Long Island non-agricultural employment fell by 3.9%.

Both the monthly losses as well as the annual gains were broad-based. From a monthly perspective, eleven of the twelve sectors surveyed recorded job losses. From an annual vantage point, nine of the twelve sectors surveyed witnessed job gains.

Table 2 in the opposite column depicts regional job growth by employment sector on Long Island.

Table 2

Non-agricultural Employment Nassau-Suffolk Area (figures in thousands)					
	<u>1/07</u>	<u>12/06</u>	<u>1/06</u>	<u>+/- Prior Month</u>	<u>+/- Prior Year</u>
Educational & Health Services	201.1	208.9	196.6	-3.7%	2.3%
Financial Activities	78.7	80.5	79.4	-2.2%	-0.9%
Government	199.6	205.3	198.4	-2.8%	0.6%
Information	30.3	30.2	29.2	0.3%	3.8%
Leisure & Hospitality	87.0	93.6	86.1	-7.1%	1.0%
Manufacturing	84.2	86.1	85.6	-2.2%	-1.6%
Natural Resources, Construction & Mining	65.1	70.4	62.9	-7.5%	3.5%
Other Services	51.1	52.9	50.9	-3.4%	0.4%
Professional & Business Services	160.1	166.5	154.2	-3.8%	3.8%
Retail Trade	163.1	172.6	160.7	-5.5%	1.5%
Transportation, Warehousing & Utilities	35.5	36.7	35.7	-3.3%	-0.6%
Wholesale Trade	72.1	74.2	71.3	-2.8%	1.1%
Total	1,227.9	1,277.9	1,211.0	-3.9%	1.4%

Source: NYS Department of Labor

Compared to this time last month, the information sector was the only one to experience positive job growth. Growth in this sector is significant since it has been flat or negative for many months.¹⁰

Not only were the annual job gains well diversified, but also robust. Of the twelve sectors surveyed, eight experienced job growth greater than 1%. It was this robust growth which provided economists with optimism for the upcoming year. According to economist Pearl Kamer, the numbers bode well for the economy, especially given the weakening housing market, which cuts into the equity consumers can tap for purchases. There should

¹⁰ Mason-Draffen, Carrie, "Unexpected Rise in LI Jobs", [Newsday.com](http://www.newsday.com), March 8, 2007.

be sufficient support from the labor market to keep consumer spending on track.¹¹

The Manufacturing sector recorded the greatest annual job-decline. The decline is expected to continue in the upcoming months as three companies have announced cuts that could mean job losses for as many as 1,000 workers. These job cuts are significant since manufacturing jobs are high-paying and support 2.36 secondary jobs in industries such as retail.¹²

Consumer Price Indexes

Table 3
Consumer Price Indexes

New York-Northern New Jersey-Long Island, NY-NJ-CT-PA Region

Index	1/07	12/06	1/06	Monthly %	Annual %
US City, CPI-U	202.4	201.8	198.3	0.3	2.1
Regional CPI-U	221.8	221.3	215.9	0.2	2.7
Core CPI-U (All Items less energy)	227.1	226.6	220.1	0.2	3.2
Medical	350.6	345.0	333.0	1.6	5.3
Housing	241.4	240.8	230.6	0.3	4.7
Gasoline (all types)	179.6	180.9	186.8	-0.7	-3.8

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

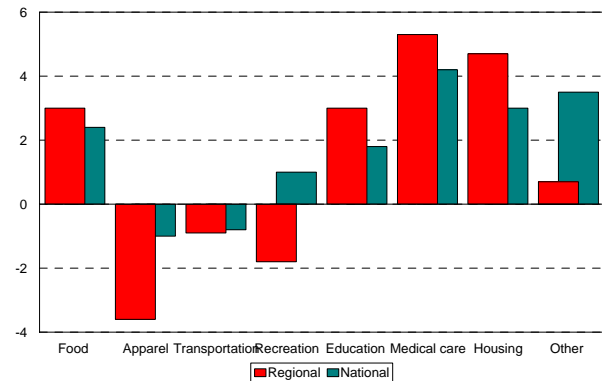
Nationally, consumer prices in January 2007 grew 0.3% monthly and 2.1% annually. From a regional perspective, consumer prices are up 0.2% from the prior month and 2.7% from the prior year.

The decline seen in energy prices put downward pressure on the all-items growth rate. The decline was short-lived, as gas prices have subsequently increased. According to the Energy Information Administration, gasoline

prices on the east coast increased 5.5 cents during the week ending February 28, 2007.¹³

The chart below details the annual changes by sector seen in the consumer price indices both nationally and regionally.

Chart 4
CPI-U Regional vs. National Annual Percentage Change
January 2007



Source: U.S. Bureau of Labor Statistics

Regionally, apparel, transportation and recreation prices put downward pressure on the all-items index by recording annual declines. Regional medical care, housing, food and educational prices put upward pressure on the all-items index by recording annual growth rates above 3%.

Both nationally and regionally, the greatest consumer price growth was seen in medical care. This increase is expected to continue in the coming decade and to surpass the growth rate seen in overall prices. According to a study completed by economists at the Centers for Medicare and Medicaid Services, in another decade \$1 out of every \$5 spent in the United States will go towards health care. Currently, \$1 out of every \$6 is spent in the United States on health care. Out-of-pocket expenses such as co-pays are expected to grow 5.3% annually in the coming decade. The cost of health

¹¹ Mason-Draffen, Carrie, "Unexpected Rise in LI Jobs", [Newsday.com](#), March 8, 2007.

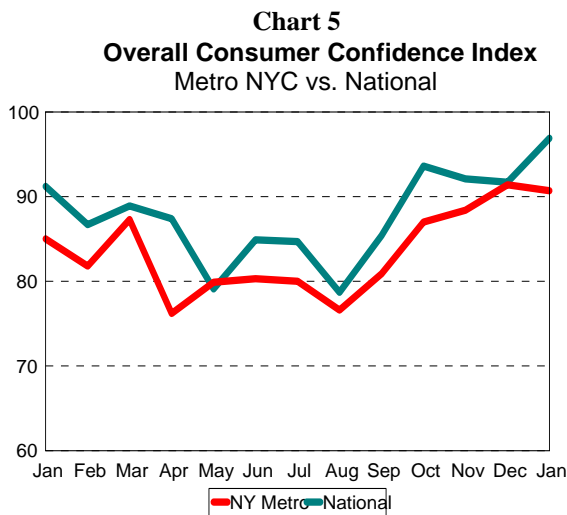
¹² Mason-Draffen, Carrie, "Producing Job Cuts", [Newsday.com](#), March 4, 2007.

¹³ Randall, Michael, "Gas Prices Up Across Region", [Recordonline.com](#), February 28, 2007.

insurance is expected to grow 6.4% annually in the coming decade.¹⁴

Consumer Confidence Index

In January 2007, regional and national consumer confidence travel on divergent paths from a monthly vantage point. However, from an annual perspective, both regional and national consumer confidence has increased more than 6.0%. The chart below details the monthly changes seen in both regional and national overall consumer confidence.



Compared to last month, regional consumer confidence has fallen 0.8%. In contrast, throughout the nation, consumer confidence rose 5.7% from the prior month. More data is required to determine if this dichotomy will become a future trend.

From an annual perspective, regional consumer confidence has risen 6.7% while national consumer confidence has increased 6.3%. Although, the annual growth in regional consumer confidence was stronger than that seen throughout the nation, regional consumer confidence remains below that of the nation.

Table 4
Detailed Consumer Confidence Indices
Metro NYC

Index	1/07	12/06	1/06	Monthly %	Annual %
ICC	93.2	94.7	90.6	-1.6	2.9
ICE	89.0	89.3	81.5	-0.3	9.2

Source: Siena College Research Institute

The table above details the Metro NYC consumer confidence by its two component parts, current (ICC) and future (ICE) confidence. Both of these indices combine to produce the overall index detailed in the chart above. The above detailed indices mirror the monthly and annual trends seen in the overall index. The monthly decline in the future confidence, ICE, index is significant since last month the index climbed 5% from the prior month and 13.2% from the prior year.

The Lodging Industry

As is typical with the winter season, Nassau's lodging industry recorded slow growth in January 2007. However, not all the decline seen in occupancy rates and average room rental rates may be attributed to seasonality, as excessive hotel/motel building has placed downward pressure on Nassau County occupancy rates. Since 1999, the Long Island region has absorbed 20 new hotels. Moreover, experts state that the downward pressure would be more evident had it not been for the airline contracts which local hotels sign to guarantee rooms for airline crews' overnight stops. According to industry experts, this guaranteed-sales cushion shows up in occupancy rates whether the rooms are actually used.¹⁵

¹⁴ Freking, Kevin, "Economists: Health Care Expenses to Grow", Businessweek.com, February 21, 2007.

¹⁵ Wagner, Daniel, "LI Hotel Plans Look to Future", Newsday.com, February 5, 2007.

Table 5

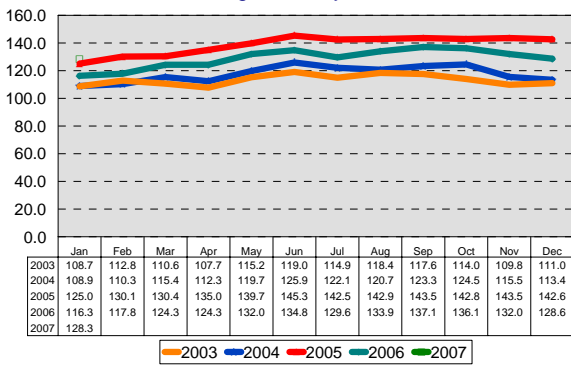
Nassau County					
Hotel / Motel Occupancy Rate					
	<u>1/07</u>	<u>12/06</u>	<u>1/06</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Occupancy Rate	58.0%	62.5%	62.5%	-7.2%	-7.2%

Source: Long Island Convention and Visitors Bureau

Table 5 above reveals that Nassau County hotel/motel occupancy rates have fallen 7.2% from both a monthly and a yearly perspective.

Chart 6

Nassau County Average Room Rental Rate Through January 2007



Source: Long Island Convention and Visitor's Bureau

The chart above details average room rental rates in Nassau by month over the previous four years. From a monthly perspective average room rental rates have fallen 0.2%. From an annual perspective, average room rental rates have increased 10.3%.

Looking forward, there are four new hotels under construction on Long Island. Additionally, there are six hotels proposed for Nassau County. If there is not sufficient business to support the new hotels, future occupancy and rental rates could decline or establishments could go out of business. However, if the area generates an influx of new business from other developments like the Hub area, the additional rooms could be absorbed and occupancy and rental rates could rise.¹⁶

¹⁶ Wagner, Daniel, "LI Hotel Plans Look to Future", [Newsday.com](http://www.newsday.com), February 5, 2007.

Conclusion

Nassau County's economy experienced slow, positive growth in January 2007. The area recorded robust job growth and positive resident employment growth from a yearly vantage point. County residents should have greater purchasing power given constant interest rates and increased tax refunds. Based on these results, 826 individuals felt confident enough to purchase a house in Nassau County. However, the New York City Metro overall regional consumer confidence declined. The decline in regional consumer confidence may be impacted by slow real wage growth, high household debt levels, and declining home equity.

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