



**NASSAU COUNTY LEGISLATURE**

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**Inter-Departmental Memo**

To: Hon. John Ciotti, Chairperson  
All Members of the Budget Review Committee

From: SA Steven Antonio  
Office of Legislative Budget Review

Date: January 19, 2011

Re: Regional and National Economic and Fiscal Forecast

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Attached is a copy of the Office of Legislative Budget Review's Regional and National Economic and Fiscal Forecast. The data presented are the most current as of the date of circulation and are the most geographically relevant.

cc: Hon. George Maragos, Nassau County Comptroller  
Frank Moroney, Nassau County Chief Deputy Comptroller  
Jeff Nogid, Director, OMB  
Evan Cohen, Executive Director, NIFA  
David Gugerty, Policy Director  
Dan McCloy, Director of Law, Finance & Operations  
Tim Sullivan, Deputy County Executive  
Gregory May, Director of Legislative Affairs  
William Muller, Clerk of the Legislature  
Edgar Campbell, Minority Chief of Staff



## OFFICE OF LEGISLATIVE BUDGET REVIEW

### The Regional and National Economic and Fiscal Forecast for 2011, 2012 and 2013

January 2011

The economy recovered in 2010, although many did not believe it. According to current forecasts, people may begin to feel, and subsequently believe in, the recovery in 2011. Economists caution though that the forecast accelerated growth rates may not be sufficient to bring down the unemployment rate.<sup>1</sup>

As the economy recovers, discouraged workers get enticed to enter the labor force and in doing so increase the number of unemployed residents. The unemployment rate will not decline until job growth catches up with the increases in the labor force. This is forecast to occur in 2012.

In 2010, both the national and regional economies moved forward. Both the national gross domestic product, GDP and Nassau's gross county product, GCP are expected to have registered positive gains in all quarters.

The heightened economic demand has resulted in net job growth. As of November 2010, New York State Bureau of Labor Statistic figures reveal that the Long Island region gained 6,000 non-farm jobs from an annual perspective. Economists expect 2011 national job growth to be triple that which occurred in 2010.<sup>2</sup>

The increase in jobs has led consumers to feel more confident. According to Siena College's 4<sup>th</sup> Quarter 2010 Quarterly Confidence Report, consumer confidence on Long Island has risen 1.35% from the prior year and 2.42% from the previous quarter. This surge in consumer confidence resulted in a strong holiday shopping season. According to the Commerce Department, December 2010 retail sales increased 0.6% from the prior month. From an annual view point, 2010 retail sales increased 6.7%. That annual increase is the highest recorded since 1999.<sup>3</sup>

Cognizant of the positive economic developments underway in our region, the PMI Mortgage Insurance Company took the metropolitan region off of its distressed markets list.<sup>4</sup> An area is considered a distressed market when it is forecast to experience increases in foreclosures and unemployment and a decline in housing values. The removal signifies an improvement in underlying housing values and an improving economy. Since their risk assessment is utilized in the calculation of private mortgage insurance rates, our removal from the list could make it more affordable to purchase a home with a smaller down payment.

<sup>1</sup> Isidore, Chris, "2011: A Hiring Boom, Even at 9% Unemployment", [CNN/Money.com](http://CNN/Money.com), January 3, 2011.

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

<sup>3</sup> The Associated Press, "Higher Energy Costs Spur Rise in U.S. Consumer Prices", [NYTimes.com](http://NYTimes.com), January 14, 2011.

<sup>4</sup> "Distressed Markets Quarterly Update", [PMI Mortgage Insurance Company](http://PMI Mortgage Insurance Company), December 17, 2010.

# The Regional and National Economic and Fiscal Forecast for 2011 - 2013

**Table 1**

2011 to 2013 U.S. Economic Forecast Forecast Annual GDP Growth Rates			
	2011	2012	2013
The Conference Board	2.50%	2.60%	NA
Moody's Economy.com	2.80%	4.36%	4.43%
Mortgage Bankers Assoc.	2.70%	3.00%	NA
PMI Mortgage Ins. Co.	2.70%	3.50%	4.30%
<b>Average</b>	<b>2.68%</b>	<b>3.36%</b>	<b>4.37%</b>

Table 1 above details the current projections for US real GDP growth from 2011 to 2013. All forecasters are currently projecting positive and increasing annual economic growth over the next three years.

From a County perspective, economic growth is forecast to remain positive through 2013. 2011 is expected to record the lowest level of economic growth. Economic growth as measured by GCP is projected to reach 1.7% in 2011. Positive employment, personal income and job growth are expected to contribute to the positive 2011 economic growth in GCP. The forecast annualized growth rates are detailed below in Table 2.

**Table 2**

2011 to 2013 Nassau County Economic Forecast Forecast Annual Growth Rates			
	2011	2012	2013
GCP	1.7%	3.4%	3.0%
Personal Income	2.4%	4.5%	5.3%
Employed	0.2%	0.7%	1.7%
Unemployed	4.6%	-2.6%	-17.6%
Unemployment Rate	7.1%	6.9%	5.7%
Non Farm Jobs	0.3%	1.6%	2.8%
New Mortgages	11.4%	29.9%	8.5%
Mrt Refinances	-9.9%	-46.8%	2.8%
Retail Sales	4.4%	4.6%	5.5%
Median Home Sale Price	-7.6%	-0.7%	3.7%
Regional CPI	1.7%	3.3%	3.7%

Source: Moody's Economy.com

In 2011, personal income growth is expected to exceed the increase in regional prices. This will enable households to increase spending levels and result in retail sales growth of 4.4%. By

2012, non-farm job growth is expected to reach the 1% mark indicative of healthy growth.

A recent survey by the Hay Group, a management consulting firm, finds that personal income growth could be greater than that which is currently forecast. They found that companies plan to raise their salary budgets by a median of 2.8% in 2011.<sup>5</sup>

The following sections provide a detailed look at each forecast economic variable. If current trends continue, 2011 should be a better year economically than 2010.

## Consumption

Real GDP is a measure of the goods and services provided within an economy. When it declines, it indicates that less goods and services are being provided and therefore fewer jobs and personal income generated. According to Moody's Economy.com's January 2011 forecast, Nassau County's real Gross County Product (GCP) is expected to be positive throughout 2011 and 2012. Growth rates are projected to accelerate through the second quarter of 2012.

The forecast for retail sales is also positive. The forecast quarterly growth rates for retail sales are expected to increase throughout 2011 and 2012.

**Table 3**

Nassau County Consumption Growth By Quarter				
	2011			
	Q1	Q2	Q3	Q4
GCP	0.37%	0.48%	0.65%	0.82%
Retail Sales	0.68%	0.49%	0.67%	0.98%
	2012			
	Q1	Q2	Q3	Q4
GCP	0.91%	0.93%	0.90%	0.83%
Retail Sales	1.22%	1.37%	1.46%	1.47%

Source: Moody's Economy.com

<sup>5</sup> Light, Joe, "Modest Pay Increases Expected in Year Ahead", The Wall Street Journal, December 27, 2010.

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The extension of the Bush-era tax cuts, the unexpected temporary reduction in payroll taxes, increasing stock prices, greater employment and an increasing willingness to lend are seen as sustaining the current retail sales forecast.<sup>6</sup>

## **Labor Market**

According to the New York State Department of Labor, the Nassau County unemployment rate stood at 7.0% in November 2010, up from both October's 6.8% and November 2009's 6.7%. The increase in the unemployment rate was negative from a monthly perspective in that it occurred in tandem with a decrease in the labor force and a decrease in the number of residents employed.

From an annual vantage point, the increase in the unemployment rate was positive in that it correlated with an increase in both labor force and resident employment figures.

Labor market conditions are expected to slowly ameliorate throughout 2011 and 2012. The current forecast for Nassau's resident employment market may be viewed in Table 4. Unemployment is considered a lagging indicator in that it improves after the recovery is firmly underway. As detailed previously, this is due to discouraged workers re-entering the labor force. It is important to monitor the forces that result in greater job growth which will eventually cause unemployment to decline, all else being equal.

Currently there are many signals in the economy pointing to heightened job growth.

According to Challenger, Gray & Christmas, an outplacement consulting firm, employers announced plans to cut nearly 530,000 jobs in 2010. That represents a 59% drop from 2009's

level. The number of job cuts in 2009 was a seven year high.<sup>7</sup>

The number of weekly new unemployed workers filing for unemployment benefits was below 400,000. That was the first time in two years that filings were below 400,000.<sup>8</sup>

Lastly, business capital expenditure and increased employment for day care workers are also said to be indicating greater future job growth and a self-sustaining recovery.<sup>9</sup>

**Table 4**

Nassau Labor Market by Quarter, 2010 and 2011				
	2011			
	Q1	Q2	Q3	Q4
Total Employed	0.00%	-0.02%	0.02%	0.09%
Total Unemployed	2.31%	2.50%	1.73%	0.49%
Unemployment %	6.9%	7.1%	7.2%	7.2%
	2012			
	Q1	Q2	Q3	Q4
Total Employed	0.16%	0.24%	0.33%	0.41%
Total Unemployed	-0.69%	-1.80%	-2.89%	-3.95%
Unemployment %	7.2%	7.1%	6.8%	6.6%

Source: Moody's Economy.com

Looking forward, Nassau is not expected to experience a full recovery in terms of resident employment until 2014. By 2014, Nassau County is expected to have more employed residents than it did in 2008.

## **Non Farm Jobs**

According to NYS Department of Labor figures, November 2010 total non-farm job growth for the Nassau – Suffolk region increased 0.4% from the prior month and increased 0.5% from November 2009.

The strongest monthly job growth was recorded in the retail trade and trade, transportation and

<sup>6</sup> The Associated Press, "Economists: Shopping to Increase in 2011", Long Island Business News, January 6, 2011.

<sup>7</sup> Smith, Aaron, and Blake Ellis, "Strong Signs of Life for the Job Market", CNN/Money.com, January 5, 2011.

<sup>8</sup> Isidore, Chris, "2011: Happy New Job!", CNN/Money.com, January 6, 2011.

<sup>9</sup> Isidore, Chris, "2011: A Hiring Boom, Even at 9% Unemployment", CNN/Money.com, January 3, 2011.

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utilities sectors. Much of this growth may be attributed to the holiday season.

From an annual perspective, broadcasting, natural resources, mining and construction, wholesale trade, education and health services and State Government Education all recorded job growth rates above 3%.

Table 5 below details the current forecast for Nassau County job growth by industry.

**Table 5**

Projected Job Growth 2011 to 2013 by Industry			
	2011	2012	2013
Construction	2.0%	1.4%	1.8%
Educ. & Health	1.4%	2.9%	3.4%
Financial	-1.3%	-0.7%	2.4%
Government	-2.4%	1.3%	2.8%
High Tech	0.2%	1.7%	2.2%
Leisure & Hospit.	-0.1%	2.7%	3.2%
Prof. & Bus. Services	0.8%	3.6%	4.1%
Retail Trade	-0.8%	0.2%	0.7%
<b>Total Non-Farm</b>	<b>0.3%</b>	<b>1.6%</b>	<b>2.8%</b>

Source: Moody's Economy.com

In 2011 the construction industry is expected to record the strongest job growth. In 2010, the Long Island construction industry is said to have gained 2,200 net new jobs. Industry experts attribute the job growth to ongoing demand for stimulus and other public projects.<sup>10</sup>

The financial sector is expected to continue to shed jobs through 2012. By 2013, all sectors are expected to register positive job gains.

### **Housing**

The Nassau County residential housing market continues to struggle. According to the Multiple Listing Service of Long Island, in November

2010 median closed housing prices were down 1.4% from the prior year and the number of closed sales was down 36.6% from the prior year.

However, the future seems brighter. Median contract prices are up 1.3%, average contract prices have increased 4.6% and the total number of contracts signed fell 1.7%.

Additionally, the market for jumbo-mortgage loans seems to be thawing. In the second quarter of 2010, lenders originated \$18 billion in jumbo-mortgage loans. That represented a 20% increase from the first quarter.<sup>11</sup> Jumbo-mortgages are a significant source of financing for a high cost area like Long Island. Thus, when the market starts to open up, it should have a substantial impact on Long Island's economy.

Moody's economy.com is currently forecasting the number of new mortgages to experience positive growth throughout 2011 and 2012. However, median closed sale prices are projected to decline through 2011. In 2012, home sale prices are expected to start to register positive growth.

**Table 6**

Nassau County Housing Forecast By Quarter				
	2011			
	Q1	Q2	Q3	Q4
New Mortgages	2.75%	5.10%	7.31%	8.51%
Mrt. Refinances	4.48%	2.70%	-4.73%	-13.60%
Med. Sale Price	-2.78%	-2.70%	-1.88%	-0.71%
	2012			
	Q1	Q2	Q3	Q4
New Mortgages	8.13%	6.64%	4.48%	2.44%
Mrt. Refinances	-20.03%	-22.70%	-17.38%	-3.57%
Med. Sale Price	0.20%	0.75%	0.95%	0.97%

Source: Moody's Economy.com

Mortgage interest rates are forecast to rise in 2011 and 2012. Table 7 details the current

<sup>10</sup> Winzelberg, David, "Construction Gains Some Jobs", Long Island Business News, December 28, 2010.

<sup>11</sup> McQueen, M.P., "The Jumbo-Mortgage Comeback", The Wall Street Journal, November 6, 2010.

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projection for national 30 year fixed mortgage interest rates.

**Table 7**

2010 to 2012 U.S. Economic Forecast			
Forecast Annual 30 Yr. Fixed Mrt. Interest Rates			
	2010	2011	2012
Mortgage Bankers Assoc.	4.70%	5.30%	5.80%
PMI Mortgage Ins. Co.	4.69%	5.04%	6.11%
<b>Average</b>	<b>4.70%</b>	<b>5.17%</b>	<b>5.96%</b>

Since mortgage rates are expected to rise and prices are forecast to decline and then slowly rise mortgages refinances are expected to decline starting in the third quarter of 2011 and throughout 2012.

The number of foreclosure proceedings currently in the pipeline is said to be the reason for the sluggish housing market forecast. According to RealtyTrac, an online marketplace for foreclosure properties, there will be 1.2 million bank repossessions in 2010. That figure is up from 900,000 in 2009. The current forecast is for 2011 to beat the 2010 figure. High unemployment and upcoming interest-rate resets on adjustable rate mortgages are expected to exacerbate the situation.

However, looking forward the marketplace is expected to improve. Currently thirty day mortgage delinquencies are down 11% from the height of the recession. The delinquency rate is expected to continue to fall in tandem with a forecast decline in unemployment.<sup>12</sup>

## Prices

As of December 2010, the US Bureau of Labor Statistic's regional, all-items index reveals that consumer prices have decreased from a monthly and increased from an annual perspective. Compared to November 2010, regional consumer prices are down 0.04% and relative to

December 2009, regional consumer prices have increased 1.45%. Positive consumer price growth is expected for 2011 through 2013. The quarterly forecast for regional consumer prices from 2011 through 2013 is shown in Table 8.

**Table 8**

Regional Consumer Price Forecast By Quarter				
	Q1	Q2	Q3	Q4
<b>2011</b>	0.50%	0.59%	0.65%	0.73%
<b>2012</b>	0.85%	0.89%	0.95%	0.96%
<b>2013</b>	0.95%	0.86%	0.81%	0.80%

Source: Moody's Economy.com

## Sales Tax Predictors

As detailed previously, US Commerce Department figures show that December 2010 national retail sales increased 0.6% from the prior month, and increased 6.7% from the prior year.<sup>13</sup> It is important to monitor retail sales since historically they have constituted 54% of County sales tax collections.

Looking forward, Nassau retail sales are now expected to grow 4.4% in 2011, 4.6% in 2012, and 5.5% in 2013. These annual growth rates may be viewed in Table 2. Table 9 details Moody's Economy.com's current forecast for retail sales by quarter over the next three years.

**Table 9**

Nassau County Consumption Growth By Quarter				
<b>2011</b>				
	Q1	Q2	Q3	Q4
Retail Sales	0.68%	0.49%	0.67%	0.98%
<b>2012</b>				
	Q1	Q2	Q3	Q4
Retail Sales	1.22%	1.37%	1.46%	1.47%
<b>2013</b>				
	Q1	Q2	Q3	Q4
Retail Sales	1.40%	1.28%	1.14%	0.98%

Source: Moody's Economy.com

Siena College's consumer confidence index showed that as of the fourth quarter 2010,

<sup>12</sup> Hoak, Amy, "More Foreclosures Expected in 2011", The Wall Street Journal, December 12, 2010.

<sup>13</sup> The Associated Press, "Higher Energy Costs Spur Rise in U.S. Consumer Prices", The New York Times, January 14, 2011.

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overall consumer confidence on Long Island was up 1.35% from the prior year. Compared to the prior quarter, Long Island consumer confidence has risen 2.42%.

According to Dr. Doug Lonnstrom, director of the Siena College Research Institute, consumer confidence was up across nearly every state region. However, confidence still has a lot of ground to make up. Consumers in New York City and Long Island are most bullish about the future; although more in those areas remain pessimistic than optimistic.<sup>14</sup> Their survey of future buying plans had the following results:

**Table 10**

% of LI Residents Who Plan to Make A Major Purchase in the Next Six Months			
	7/2010	10/2010	1/2011
	Forecast	Forecast	Forecast
Car or Truck	10.9%	11.5%	11.9%
Computer	15.7%	14.9%	15.6%
Furniture	17.4%	16.1%	20.6%
Home	2.4%	4.1%	4.7%
Home Improvement	16.7%	14.6%	14.1%
<b>Buying %</b>	<b>63.1%</b>	<b>61.2%</b>	<b>66.9%</b>

Source: Siena College Research Institute

Overall, compared to the previous two forecasts, a higher percentage of Long Islanders currently plan on making a major purchase within the next six months.

There are a couple of negative forces in the economy that could significantly impact County sales tax collections.

The cost of gas on Long Island continues to increase and some analysts think that prices could reach \$4 a gallon during the summer driving season. The increase is attributed to a

<sup>14</sup> “Quarterly Consumer Confidence by Nine NY State MSA’s”, Siena College Research Institute, January 13, 2011.

growing world economy and a weak dollar.<sup>15</sup> Gas prices are seen as an inhibitor to spending since individuals opt to make fewer trips.

The number of unemployed residents remains high and is not expected to see a decline until 2012. This scenario will dampen the growth rate experienced in County sales tax collections.

### **Lodging Industry**

The year end is considered off-peak for the Long Island lodging industry. However, despite the seasonal decline, the industry was able to record higher occupancy rates in November 2010 in conjunction with increased average room rental rates.

According to Long Island Convention and Visitor Bureau figures Nassau County’s average occupancy rate in November 2010 was 63.5%, up from November 2009’s 62.0%. This rise occurred in tandem with a \$0.71 annual increase in average room rental rates. This increase is a good indicator of greater business spending since Nassau’s lodging market is to a large extent driven by business travel.

### **Conclusion**

The Nassau County economy continues to recover. According to the current forecast, the recovery is expected to become self-sustaining and households will begin to feel as though they are experiencing an economic recovery.

However, it should be noted that many residents are unemployed and US Bureau of Labor Statistics show the average duration of unemployment in the US stood at 34.0 weeks in December 2010. That is down from November 2010’s 34.5 weeks level and up from December 2009’s 29.0 weeks level. This could dampen the recovery.

<sup>15</sup> Incantalupo, Tom, “Gas on LI Could Be \$4 a Gallon By Summer”, Newsday, January 6, 2011.

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In table 11, below, the full recovery year for five forecast economic variables is detailed. The full recovery year is the year in which the forecast variable attains or exceeds the level recorded in 2008.

**Table 11**

<b>Nassau County Full Recovery Forecast Projected Year When 2008 Level is Attained</b>	
	<b>Year</b>
Employment	2014
Mortgage Originations	2012
Retail Sales	2010
Non Farm Jobs	2013
Median Sale Price	2022

Source: Moody's Economy.com

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