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Inter-Departmental Memo

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

From: Maurice Chalmers, Director
Legislative Budget Review

A handwritten signature in blue ink, appearing to be "M. Chalmers", is written over the name of the sender.

Date: February 27, 2013

Re: Fourth Quarter 2012 Economic Report & 2013 – 2017 Forecast.

Attached is a copy of the Office of Legislative Budget Review's fourth quarter 2012 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 Forecast for 2013 to 2017

January 2013

The national economy contracted for the first time in more than three years in the fourth quarter of 2012. Federal defense cuts outweighed strong consumer spending, resulting in a 0.1% decline in national economic activity.¹

However, the contraction in national economic activity is not expected to continue. According to the National Association for Business Economists quarterly economic survey, half of economists polled expect national GDP for 2013 to increase between two and four percent.²

The local economy is not growing.³ The stalled economic activity is seen as commencing prior to Hurricane Sandy and then declining further after Sandy.⁴ Hurricane Sandy is estimated to have cost the local economy up to \$10 billion.⁵ However, the rebuilding effort is forecast to contribute to 2013 economic growth. Moody's current economic forecast has Nassau's economy growing 1.8% in 2013, 2.8% in 2014, 3.7% in 2015, 3.0% in 2016, and 2.2% in 2017.

All surveyed variables are projected to record positive growth in 2013. Double digit growth is

expected for new mortgages and local construction jobs.

Table 1 details the current Moody's Economy.com economic forecast for Nassau County.

Table 1

2013 to 2017 Nassau County Economic Forecast					
Forecast Annual Growth Rates*					
	2013	2014	2015	2016	2017
GCP	1.8%	2.8%	3.7%	3.0%	2.2%
Personal Income	3.3%	6.1%	6.7%	6.1%	4.6%
Employed	0.7%	1.0%	1.6%	1.0%	0.3%
Unemployed	-2.8%	-14.7%	-17.3%	-11.3%	-5.5%
Unemployment %	7.0%	6.0%	4.9%	4.4%	4.1%
Non Farm Jobs	1.2%	0.8%	2.3%	1.9%	1.0%
New Mortgages	19.8%	24.3%	9.2%	5.4%	8.9%
Mrt Refinances	-42.4%	-68.1%	-22.5%	30.7%	69.5%
Retail Sales	2.9%	3.7%	3.9%	3.3%	3.4%
Median Home Sale Price	1.9%	1.7%	2.3%	3.2%	3.9%
Regional CPI	2.8%	3.0%	3.1%	3.0%	2.8%

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

According to the current forecast, Nassau County personal income growth will exceed regional price growth in 2013. Moreover, confident consumers are expected to increase their retail sales spending by 2.9% in 2013. Lastly, resident employment growth is forecast to be positive from 2013 through 2017 and 2013 non-farm job growth is projected to exceed the 1.0% mark indicative of healthy job growth.

For the remainder of the year, economic growth as measured by the Gross County Product is forecast to increase throughout 2013. Strong growth in mortgage originations, retail sales, median home sale prices, and total personal income are supporting the projected positive year end economic growth.

¹ Kurtz, Annalyn, "U.S. Economy Contracts for the First Time Since Recession", CNN/Money.com, January 30, 2013.

² The Associated Press, "Economists Growing More Upbeat About Year Ahead", Long Island Business News, January 28, 2013.

³ Callegari, John, "Kamer: LI Economy Worse Than Rest of US", Long Island Business News, January 25, 2013.

⁴ Madore, James T., "Experts: Sandy Derailed LI Recovery", Newsday, January 25, 2013.

⁵ Same as above.

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The following sections provide a detailed look at each forecast economic variable.

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 the Commerce Department, December 2012 national retail sales increased 0.5% from the prior month. Robust auto and auto part sales contributed to the overall retail sales increase.⁶

According to Moody's Economy.com's January 2013 forecast, Nassau County's real Gross County Product (GCP) is expected to be positive from 2013 through 2017.

Table 3 details Moody's current forecast for Nassau County income, GCP and retail sales. All variables forecast are expected to register positive annual growth rates in all years surveyed.

Table 3

Nassau County Consumption Growth by Quarter				
2013				
	Q1	Q2	Q3	Q4
GCP	0.45%	0.50%	0.56%	0.63%
Retail Sales	0.70%	0.76%	0.82%	0.88%
Total Personal Income	0.64%	0.79%	1.09%	1.41%
2014				
	Q1	Q2	Q3	Q4
GCP	0.69%	0.77%	0.87%	0.94%
Retail Sales	0.92%	0.96%	1.00%	1.02%
Total Personal Income	1.60%	1.68%	1.70%	1.66%

Source: Moody's Economy.com

The forecast for 2013 retail sales growth may prove to be optimistic when compared to Siena Research Institute's most recent surveys of consumer confidence and Long Island buying plans. In January 2013, New York metropolitan consumer confidence dropped from both a

⁶ The Associated Press, "US Retail Sales Up 0.5 Percent in December", *Long Island Business News*, January 15, 2013.

monthly and an annual perspective. Moreover, buying plans on Long Island have decreased from both a monthly and an annual vantage point, see Table 10. Experts opined that the January 2013 fall in consumer confidence may be attributed to higher social security taxes which reduced household disposable income.⁷

Labor Market

According to the New York State Department of Labor, the Nassau County unemployment rate stood at 7.0% in December 2012, unchanged from November 2012's 7.0% and up from December 2011's 6.5%. The annual increase in the unemployment rate was positive in that it occurred in tandem with annual increases in the labor force and resident employment. Experts attributed the uptick in the unemployment rate to the aftermath of Hurricane Sandy. In areas such as Long Beach, as many as one-quarter of the businesses remain closed.⁸

Labor market conditions are expected to remain positive, albeit sluggish from 2013 through 2017. Nassau's unemployment rate is expected to decline through 2017. The current forecast has the average annual County unemployment rate falling to 7.0% in 2013, 6.0% in 2014, 4.9% in 2015, 4.4% in 2016, and 4.1% in 2017.

The current forecast may be viewed on a quarterly basis in Table 4.

⁷ The Associated Press, "US Consumer Confidence Plunges on Higher Taxes", *Long Island Business News*, January 29, 2013.

⁸ Solnik, Claude, "Long Island Unemployment Rate Up to 7.1 Percent", *Long Island Business News*, January 22, 2013.

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Table 4

Nassau Labor Market By Quarter, 2013 and 2014				
	2013			
	Q1	Q2	Q3	Q4
Total Employed	0.21%	0.22%	0.22%	0.21%
Total Unemployed	-0.90%	-1.90%	-2.78%	-3.52%
Average Unemployment %	-1.03%	-1.98%	-2.80%	-3.49%
	2014			
	Q1	Q2	Q3	Q4
Total Employed	0.23%	0.27%	0.35%	0.41%
Total Unemployed	-4.07%	-4.51%	-4.86%	-5.02%
Average Unemployment %	-4.02%	-4.46%	-4.87%	-5.11%

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

Although the unemployment rate remains high from a historical perspective, it is positive that the rate is expected to decline and eventually reach 4.1% on an average annualized basis by 2017. Table 5 details the forecast for the annual growth rates in Nassau County.

Table 5

Nassau Labor Market Projected Annual Growth Rates					
	2013	2014	2015	2016	2017
Total Employed	0.7%	1.0%	1.6%	1.0%	0.3%
Total Unemployed	-2.8%	-14.7%	-17.3%	-11.3%	-5.5%
Average Unemploy % Change	7.0%	6.0%	4.9%	4.4%	4.1%

Source: Moody's Economy.com

The out-year forecast for Nassau's labor market reveals continued annual declines in resident unemployment coupled with positive growth in resident employment.

Non Farm Jobs

According to NYS Department of Labor figures, December 2012 total non-farm job growth for the Nassau – Suffolk region increased 0.4% from the prior month and increased 0.2% from December 2011.

From a monthly perspective, due to holiday shopping, the strongest job growth was recorded in the general merchandise stores, department stores and courier and messengers sectors.

From an annual viewpoint, the strongest job growth was in the financial activities, education and health services, and professional and business services sectors.

Long Island 2012 job growth was lower than both New York State and the nation.⁹

Nassau County is expected to generate positive total non-farm job growth from 2013 to 2017. As Tables 1 and 6 detail, Nassau is currently forecast to record annual nonfarm job growth of roughly 1% or more from 2013 through 2017.

Table 6 provides a detail of the growth forecast for eight sectors. The construction sector is projected to record the greatest job growth. Contributing to the forecast construction job growth is the rebuilding effort. Only the retail trade and leisure and hospitality sectors are expected to register negative job growth in 2013.

Table 6

Nassau County Annual Job Growth By Sector, 2013 to 2017						
	2013	2014	2015	2016	2017	5 Yr.
Construction	16.4%	-10.2%	5.9%	4.6%	2.5%	19.1%
Educ & Health	1.7%	3.1%	3.4%	2.8%	1.8%	12.9%
Financial Activities	0.4%	-0.4%	2.1%	1.8%	0.5%	4.4%
Prof and Bus	2.1%	2.3%	3.6%	3.1%	1.8%	12.8%
Retail Trade	-0.1%	-0.7%	0.2%	0.1%	-0.6%	-1.1%
Government	0.1%	0.9%	1.2%	0.7%	0.4%	3.4%
Leisure and Hospitality	-0.3%	2.1%	2.5%	2.3%	1.5%	8.0%
High Tech	0.7%	2.1%	2.9%	2.5%	1.7%	9.8%
Total Non-Farm Jobs	1.2%	0.8%	2.3%	1.9%	1.0%	7.1%

The construction, education and health services, and professional and business services sectors are projected to record double digit job growth over the next five years.

Housing

Both nationally and locally, the residential housing market is experiencing healthy growth. Nationally, the housing market ameliorated in 2012.

Sales volumes were at the highest level seen in five years. The inventory of available houses dropped to the lowest level seen in twelve years.

⁹ Callegari, John, "Long Island Adds 8,800 Jobs in December", *Long Island Business News*, January 17, 2013.

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Lastly, thirty year mortgage interest rates recorded their lowest annual average in sixty five years.

Despite, the sizeable growth, total national home sales for 2012 were 4.65 million, below the 5.5 million standard indicative of a healthy market. Experts cite tight credit standards, large down payment requirements¹⁰ and low appraised values as inhibiting demand.¹¹ Since appraisers use historical sales to evaluate the market price of a property, appraisals can come in low in a rising market price environment. In a recent survey one third of real-estate agents said the appraisal process resulted in buyers and sellers delaying or canceling contracts or renegotiating to a lower sale price. That is up from less than 10% in 2008.¹²

Locally, in 2012, the residential housing market similarly saw an uptick in both sales volume and a decrease in inventory levels. However, home prices have been relatively unchanged over the prior 24 months.¹³

Current Multiple Listing Service of Long Island (MLSIL) figures reveal that the housing market took a step back in January 2013. From a monthly perspective, home sales fell 20.4% and median sale prices were unchanged. However, from an annual vantage point, sales increased 3.6% and sale prices rose 3.9%. Table 7 details the monthly and annual changes in Nassau home sales and prices.

¹⁰ The Associated Press, "US Home Sales Dip in Dec.; 2012 Best in 5 Years", Long Island Business News, January 22, 2013.

¹¹ Andriotis, Annamaria, "The Appraisal Betrayal", The Wall Street Journal, January 24, 2013.

¹² Andriotis, Annamaria, "The Appraisal Betrayal", The Wall Street Journal, January 24, 2013.

¹³ Winzelberg, David, "LI December Home Sales, Prices Remain Flat", Long Island Business News, January 14, 2013.

Table 7

Nassau County Housing Actuals					
2013 Current	Jan-12	Dec-12	Jan-13	Mthly %	Yrly %
Closed Home Sales	614	799	636	-20.4%	3.6%
Median Sale Price	385,000	400,000	400,000	0.0%	3.9%
2013 Pending	Jan-12	Dec-12	Jan-13	Mthly %	Yrly %
Contract Sales	595	656	720	9.8%	21.0%
Median Contract Price	363,000	380,000	380,000	0.0%	4.7%

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

Looking forward, over the next six months the market should appreciate in terms of price and quantity. Median contract sale prices for January 2013 were up 4.7% from the prior year and contract sales counts were up 21.0%. MLSIL contract indicators are supposed to show what the market will be like over the next six months.

Moody's current housing forecast reveals continued home price escalation throughout 2013 and 2014. Mortgage refinancings are expected to decline in all surveyed quarters. Lastly, sales volume is projected to increase throughout 2013 and 2014.

Moody's current forecast may be viewed in Table 8. Table 8 details the projected quarterly changes for the Nassau County housing market in terms of new mortgages, mortgage refinancings and median home sale prices in 2013 and 2014.

Table 8

Nassau County Housing Forecast by Quarter				
	2013			
	Q1	Q2	Q3	Q4
New Mortgages	5.82%	6.97%	7.21%	6.78%
Refinances	-14.94%	-20.06%	-23.89%	-26.20%
Median Sale Price	0.33%	0.24%	0.27%	0.37%
	2014			
	Q1	Q2	Q3	Q4
New Mortgages	5.93%	4.91%	3.80%	2.73%
Refinances	-27.42%	-26.88%	-22.29%	-12.02%
Median Sale Price	0.44%	0.49%	0.52%	0.54%

Source: Moody's Economy.com

Since mortgage interest rates have been low for an extended period of time, since so many homeowners have negative equity in their

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houses, and since appraised values tend to be low in a rising price environment, refinancing is not an option for many households.

Commercial Real Estate

The commercial real estate market is sluggish, albeit moving in a positive direction. The Long Island office vacancy rate for the fourth quarter of 2012 was 12.3%, down from the fourth quarter of 2011's 12.7% vacancy rate. Industry experts opine that market trends are placing downward pressure on the need for office space. That is, with improvements in technology, more employees are working remotely which lessens the demand for office space. Moreover, in the current cost cutting environment, industry standards for employee space have changed. Previously, the standard was 250 square-feet per employee. Now companies are operating with a 200 square-feet per employee benchmark.¹⁴

Industrial Real Estate

The industrial real estate market on Long Island is sluggish. In the last quarter of 2012, the Long Island overall vacancy rate was 5.6%, up from the fourth quarter of 2011's 5.4%. The slight increase in vacancy rates was attributed to corporate downsizing. Companies were said to be contracting and consolidating. The only new entrants to the marketplace are firms relocating from New York City, Queens and Brooklyn.¹⁵

Prices

As of December 2012, the US Bureau of Labor Statistic's regional, all-items index reveals that consumer prices have decreased 0.3% from a monthly and increased 2.1% from an annual perspective. Contributing to the annual consumer price increase are rising gas and energy prices. On Long Island during the

¹⁴ Winzelberg, David, "Shrinking Offices May Makeover Melville", *Long Island Business News*, January 17, 2013.

¹⁵ Winzelberg, David, "Consolidation Driving LI Industrial RE Market", *Long Island Business News*, January 25, 2013.

month preceding February 19, 2013, gas prices increased a little more than a cent per day on average. The increase is being attributed to tightening fuel supplies at refineries¹⁶ and rising crude oil prices.¹⁷

Positive consumer price growth is expected for 2013 through 2017. The quarterly forecast for regional consumer prices from 2013 through 2017 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
2013	0.74%	0.71%	0.76%	0.72%
2014	0.74%	0.75%	0.77%	0.73%
2015	0.79%	0.76%	0.74%	0.75%
2016	0.74%	0.74%	0.71%	0.70%
2017	0.70%	0.70%	0.69%	0.70%

Source: Moody's Economy.com

Sales Tax Predictors

As detailed previously, US Commerce Department figures show that December 2012 national retail sales increased 0.5% from the prior month.¹⁸ 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 17.2% from 2013 to 2017. The annual retail sales forecast may be seen in Table 1.

Despite the projected positive growth in Nassau County retail sales, Siena College's monthly consumer confidence index reveals that consumer confidence in the New York

¹⁶ Callegari, John, "Long Island Gas Prices Inch Closer to \$4", *Long Island Business News*, February 19, 2013.

¹⁷ Hargreaves, Steve, "Energy Prices on the Rise Again", *CNN/Money.com*, January 30, 2013.

¹⁸ The Associated Press, "US Retail Sales Up 0.5 Percent in December" *Long Island Business News*, January 15, 2013.

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metropolitan region is down from both a monthly and an annual perspective. Moreover, the buying plans for Long Island households has similarly fallen.

Table 10 details the future buyer intentions of Long Island residents. The data was obtained from Siena College Research Institute's quarterly consumer confidence survey. Currently, 66.7% of Long Island residents plan to make a large purchase over the next six months. That is down from December 2012's 69.6% and January 2012's 72.5%.

Table 10

% of LI Residents Who Plan to Make a Major Purchase in the Next Six Months			
	Jan - 12	Dec - 12	Jan -13
Car or Truck	13.3%	11.5%	10.6%
Computer	16.3%	17.9%	14.9%
Furniture	21.6%	20.7%	20.6%
Home	4.0%	2.9%	4.4%
Home Improvement	17.3%	16.6%	16.2%
Buying %	72.5%	69.6%	66.7%
<small>Source: Siena College Research Institute</small>			

A recent National Retail Federation survey found similar consumer purchasing behavior. Their results reveal that nearly 75% of respondents are cutting back their spending to deal with newly implemented tax changes. The end of the two year payroll tax holiday reduced disposable income and therefore household purchases. Increasing gas prices are also seen as inhibiting consumer spending.¹⁹ According to energy industry experts, a penny rise in gasoline prices costs consumers nationwide a billion dollars over the course of the year.²⁰

¹⁹ Hicken, Melanie, "Crunched Consumers are Cutting Back", CNN/Money.com, February 21, 2013.

²⁰ Hargreaves, Steve, "Energy Prices on the Rise Again", CNN/Money.com, January 30, 2013.

Lodging Industry

Hurricane Sandy had a significant impact on Nassau's lodging industry. From an annual vantage point, occupancy rates at hotels and motels increased 17.3 percentage points in November 2012, 25.1 percentage points in December 2012 and 24.4 percentage points in January 2013. Over the same timeframe, average rental rates rose \$21.58, \$25.62, and \$20.28. Individuals whose home are uninhabitable have been living in Nassau's hotels and motels.²¹

These trends are positive for both Nassau County Hotel/Motel tax collections and sales tax collections.

Conclusion

Both the national and local economies appear to have taken a few steps back economically. The national economy contracted for the first time in more than three years in the fourth quarter of 2012.²² Moreover, at a local level, Superstorm Sandy, the elimination of the payroll tax holiday and higher gasoline prices are said to be inhibiting local economic growth.

Despite the downward pressure on economic growth, both the national and local economies are projected to record positive economic growth in 2013.

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²¹ Madore, James T., "Experts: Sandy Derailed LI Recovery", Newsday, January 25, 2013.

²² Kurtz, Annalyn, "U.S. Economy Contracts for the First Time Since Recession", CNN/Money.com, January 30, 2013.