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

From: Maurice Chalmers, Director
Office of Legislative Budget Review

Date: August 15, 2013

Re: Mid-Year 2013 Economic Report

Attached is a copy of the Office of Legislative Budget Review's Mid-Year 2013 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.



Nationally, second quarter Gross Domestic Product (GDP) figures showed greater than expected strength. The US economy grew from April through June at a modest annual rate of 1.7%, as businesses spent more and the federal government cut less. This pace was an improvement from the previous two quarters.¹ Still growth remains sluggish and has been below 2% for three straight quarters.

The biggest part of the economy is consumer spending and that grew more slowly in the second quarter. Americans bought more cars, trucks, furniture and clothes, but they cut back almost everywhere else such as spending in restaurants and bars.² Despite this slowdown in spending, economists aren't changing their annual forecast for the second half of the year. Most are predicting annual growth rates between 2.0% to 3.0%. According to the Chief U.S. Economist at Capital Economics, "job growth, income growth, rising stock prices and higher home prices all suggest a healthier outlook for the household sector in the second half of the year."³

Based on Moody's Economic Forecast, the local economy appears to be moving in a positive

¹ Rugaber, Christopher S. "U.S. GDP grows at rate better than expected in 2nd Quarter." *Business & Money*. July 31, 2013.

² Crutsinger Martin, "US Economy Looks Weaker After Subpar Retail Sales." *The Associated Press*. July 15, 2013.

³ Ibid.

direction, albeit at a slow pace. With the exception of mortgage refinances, most of the surveyed economic variables are projected to record positive growth in 2013. Moody's current economic forecast has Nassau's economy growing 1.9% in 2013, 2.5% in 2014, 4.2% in 2015, 3.0% in 2016 and 2.3% in 2017.

The local housing market appears to be recovering. Moody's forecast reflects new mortgages to record double digit growth and median sale prices to rise. Higher sales volume coupled with increasing sale prices is a positive indicator for the market. Rising home prices make homeowners feel wealthier which may lead to greater spending.

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

Table 1

2013 to 2017 Nassau County Economic Forecast					
Forecast Annual Growth Rates*					
	2013	2014	2015	2016	2017
GDP	1.9%	2.5%	4.2%	3.0%	2.3%
Personal Income	3.0%	5.6%	7.0%	6.6%	4.8%
Employed	1.5%	1.6%	3.6%	3.1%	1.4%
Unemployed	-6.3%	-10.1%	-14.0%	-8.2%	-4.5%
Unemployment %	6.6%	5.9%	4.9%	4.4%	4.2%
Non Farm Jobs	1.2%	1.0%	2.3%	2.1%	1.2%
New Mortgages	25.7%	24.2%	13.3%	2.7%	5.4%
Mrt Refinances	-39.2%	-63.7%	-23.7%	-1.2%	76.2%
Retail Sales	3.9%	3.5%	4.9%	4.1%	3.7%
Median Home Sale Price	2.2%	2.2%	2.7%	2.5%	3.9%
Regional CPI	2.2%	2.7%	2.9%	3.0%	3.0%

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

According to the current forecast, Nassau County personal income growth continues to

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exceed regional price growth in 2013. This will allow consumers to sustain their current level of spending. Resident employment growth is forecast to be positive from 2013 through 2017. The 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 (GCP) is forecast to increase. Strong growth in mortgage originations, median home sale prices, and total personal income are supporting the projected positive year-end economic growth.

The following sections provide a detailed look at each forecasted 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 are being generated.

Consumers are still spending but the pace has dropped off sharply from the start of the year. Although core retail sales increased from April through June at a 2.7% annual rate, that is down from the 4.2% rate during the first three months.⁴

According to the Commerce Department, June 2013 national retail sales increased 0.4% from the prior month. June's monthly report for retail sales is the weakest gain since January. Compared to the same time last year, sales increased 5.7% above June 2012.⁵ The increase is mostly attributed to an increase in automobile spending. National auto sales have exceeded pre-recession levels in the first 6 months of this year. Sales in the January-June period topped

7.8 million; this is their best first half since 2007.⁶

According to Moody's July 2013 forecast, retail sales are expected to be positive from 2013 through 2017. Table 2 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 2

Nassau County Consumption Growth by Quarter				
	2013			
	Q1	Q2	Q3	Q4
GCP	0.45%	0.42%	0.42%	0.46%
Retail Sales	0.96%	0.86%	0.78%	0.74%
Total Personal Income	0.60%	0.73%	0.98%	1.25%
	2014			
	Q1	Q2	Q3	Q4
GCP	0.55%	0.70%	0.90%	1.08%
Retail Sales	0.77%	0.89%	1.08%	1.26%
Total Personal Income	1.44%	1.57%	1.66%	1.71%

Source: Moody's Economy.com

Plans to purchase major consumer goods tended to strengthen this quarter. Siena Research Institute's most recent survey of consumer confidence reveals that the current confidence is greater than the future outlook. Consumers remain skeptical about the future as in nearly every area of the state, current confidence is higher than the future.⁷

The consumer confidence for Nassau and Suffolk was 74.7 points in the April-June period, up 2.1 points from the first three months of 2013. The index reading was the highest since Siena began surveying consumer attitudes on Long Island in late 2008.⁸ However, the second quarter reading is still below 76 points,

⁶ The Associated Press. "US Retail Sales Rise 0.4 percent in June on Autos." Long Island Business News. July 15, 2013.

⁷ Lonnstrom, Douglas, "Consumer Sentiment Rebounds all Areas Outside NYC." Siena Research Institute. July 11, 2013.

⁸ Madore, James T, "LI Consumer Confidence Highest Since 2008." Newsday. July 11, 2013.

⁴ Ibid.

⁵ US Census Bureau News. "Advance Monthly Sales For Retail and Food Services." June 2013.

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meaning the number of residents who are pessimistic about their economic future is greater than the number who is optimistic. On the Island, the number of residents telling Siena they planned in the next six months to purchase a computer/tablet, furniture or start a home-improvement project was up, which is being offset by a decline in future automobile purchases.⁹

Labor Market

The Long Island unemployment rate has declined sharply over the past few months. According to the New York State (NYS) Department of Labor, the Long Island rate declined to 6.1% from 7.5% a year ago. The June unemployment rate is the lowest since 2009.¹⁰ However, it still remains significantly above the 3.9% it stood at in June 2006, the year before the recession began.¹¹ A rate below 4% is considered full employment. The current Long Island rate is well below the New York State rate of 7.6%.

The job market has been relatively strong on Long Island in recent months. The number of employed Long Islanders rose by roughly 200,000 to 1.42 million in June, the most for that month since 2008.¹² The number of unemployed residents dropped to the lowest figure since June 2008.

Despite the recent job gains, some economists caution that the unemployment report does not capture two big underlying characteristics. It does not include discouraged workers who have stopped hunting for a job and it doesn't address

the prevalence of lower wage jobs which has characterized the recovery on Long Island.¹³

As reflected in table 3, labor market conditions for the employed are expected to remain positive through 2017. Moody's is forecasting a 1.5% increase in the number of employed residents in 2013. Nassau's unemployment rate is expected to continue to decline through 2017. The current forecast has the average annual County unemployment rate falling to 5.9% in 2014, 4.9% in 2015, 4.4% in 2016, and 4.2% in 2017.

Although the unemployment rate remains high from a historical perspective, it is a positive sign that the rate is expected to significantly decline and eventually reach 4.2% by 2017. The current annual forecast may be viewed below in Table 3 below.

Table 3

Nassau Labor Market Projected Annual Growth Rates					
	2013	2014	2015	2016	2017
Total Employed	1.5%	1.6%	3.6%	3.1%	1.4%
Total Unemployed	-6.3%	-10.1%	-14.0%	-8.2%	-4.5%
Average Unemploy % Change	6.6%	5.9%	4.9%	4.4%	4.2%

Source: Moody's Economy.com

Table 4 details the quarterly rates for 2013 and 2014 in Nassau County.

Table 4

Nassau Labor Market By Quarter, 2013 and 2014					
	2013				
	Q1	Q2	Q3	Q4	
Total Employed	0.40%	0.37%	0.30%	0.26%	
Total Unemployed	-2.15%	-2.56%	-2.53%	-2.32%	
Average Unemployment %	-2.37%	-2.74%	-2.66%	-2.43%	
	2014				
	Q1	Q2	Q3	Q4	
Total Employed	0.30%	0.43%	0.66%	0.88%	
Total Unemployed	-2.32%	-2.63%	-3.30%	-3.96%	
Average Unemployment %	-2.45%	-2.85%	-3.67%	-4.51%	

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

The out-year forecast for Nassau's labor market reflects continued annual declines in resident

⁹ Ibid.

¹⁰New York State. "State's 7.5% Unemployment Rate Falls Below National Rate, Lowest Since February 2009." July 18, 2013.

¹¹ Mason-Draffen, Carrie, "LI Unemployment Rate Down From June 2012." Newsday. July 23, 2013

¹²Ibid.

¹³Ibid.

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unemployment coupled with positive growth in resident employment.

Non-Farm Jobs

Nationally, employers added an average of 202,000 jobs a month from January through June, up from 180,000 in the previous six months.¹⁴ The regional market also reported positive growth in June.

The Long Island economy added 19,400 more jobs in June compared with a year earlier. According to NYS Department of Labor figures, total non-farm job growth for the Nassau-Suffolk region increased 0.9% from the prior month and increased 1.5% from June 2012. Although the job market has increased on an annual basis the data continues to be worrisome because gains show the strongest growth in lower paying jobs.

Based on the State's labor statistics, in terms of the number of positions from an annual viewpoint, the strongest job growth occurred in the leisure and hospitality sector adding 7,000 jobs, followed by educational & health services, professional & business services with 5,900, and trade, transportation and utilities with 6,800. Meanwhile the government sector experienced the greatest loss of 3,500 followed by a loss of 3,000 in the financial sector and 2,800 in the manufacturing sector.¹⁵

While the number of jobs for the month of June increased, it was a smaller gain than the number of jobs added in May. It was the second consecutive month of slowing job growth.¹⁶ Nassau County is expected to generate positive total non-farm job growth from 2013 to 2017.

¹⁴ The Associated Press, "US Economy May Need Continued Support From Fed." The Long Island Business News. August 1, 2013.

¹⁵ Mason-Draffen, Carrie, "LI Adds 19,400 Jobs in June From Year Earlier." Newsday. July 18, 2013.

¹⁶Ibid.

As Table 5 details, Nassau is currently forecast to record five year growth of 7.8% through 2017.

Table 5 provides a detail of the growth forecast for eight sectors. The construction sector is projecting to record the greatest job growth due to the rebuilding efforts from Superstorm Sandy. Through the end of June, residential contracts are up 31% in the metropolitan New York area compared to the same time last year.¹⁷ As reflected in the chart below, the government and financial activities sector is expected to register negative job growth in 2013.

Table 5

Nassau County Annual Job Growth By Sector, 2013 to 2017						
	2013	2014	2015	2016	2017	5 Yr.
Construction	3.2%	3.0%	6.8%	4.5%	2.3%	19.8%
Education & Health	1.6%	2.9%	3.4%	3.1%	2.1%	13.2%
Financial Activities	-0.1%	-0.9%	2.1%	2.1%	0.8%	4.0%
Professional and Bus Services	3.0%	2.9%	3.9%	3.3%	2.0%	15.1%
Retail Trade	2.0%	-0.8%	0.1%	0.1%	-0.5%	0.9%
Government	-1.9%	-0.3%	1.0%	0.6%	0.4%	-0.2%
Leisure and Hospitality	4.5%	1.8%	2.6%	2.4%	1.7%	13.1%
High Tech	0.2%	2.3%	3.5%	3.2%	2.3%	11.6%
Total Non-Farm Jobs	1.2%	1.0%	2.3%	2.1%	1.2%	7.8%

Housing

The housing market continued to strengthen in the second quarter of 2013. This strength is evident both here in Nassau and across the country. As the Office of Legislative Budget Review (OLBR) predicted at the end of the first quarter, rising prices have encouraged more homeowners to enter the marketplace. The rise in prices and the subsequent growth in inventory coincided with a sharp drop in the percentage of homeowners underwater on their mortgages. In March 2013, 19.8% of homeowners nationwide were underwater on their mortgages, whereas

¹⁷ Winzelberg, David, "Residential Construction Contracts Dip in June." Long Island Business News, August 2, 2013.

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that figure had been 23.7% in March 2012.¹⁸ Several other measures demonstrate the health of the national housing market, such as home prices rising at the fastest rate in six years during May,¹⁹ and new homes sales reaching their highest level in five years²⁰.

Current Multiple Listing Service of Long Island (MLS LI) data indicates that the effects of the national housing recovery are, on some level, occurring in Nassau County as well. Table 6 exhibits the monthly and annual changes in Nassau home sales and prices.

Table 6

Nassau County Housing Actuals					
2013 Current	Jun-12	May-13	Jun-13	Mthly %	Yrly %
Closed Home Sales	958	867	986	13.7%	2.9%
Median Sale Price	400,000	390,000	425,000	9.0%	6.3%
2013 Pending	Jun-12	May-13	Jun-13	Mthly %	Yrly %
Contract Sales	944	1,315	1,147	-12.8%	21.5%
Median Contract Price	420,000	422,000	430,000	1.9%	2.4%

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

Closed home sales were robust in June, from a month to month and a year to year perspective. This June, 13.7% more homes were sold than in May. Prices soared 9.0% during this time. From a year to year perspective, 2.9% more homes were sold this June than in June 2012. Homes sold for 6.3% more in June 2013 than in June 2012. However, the growth in prices wasn't felt throughout Nassau. Super storm Sandy devastated the south shore, and median

¹⁸ The Associated Press, "Home Price Gains Bring Sellers Off the Sidelines," Long Island Business News, July 8, 2013.

¹⁹ The Associated Press, "US Home Prices rise 12.2 percent, Best In 6 Years," Long Island Business News, July 30, 2013.

²⁰ The Associated Press, "US New Home Sales at Highest Level in 5 Years," Long Island Business News, July 24, 2013.

sales prices tumbled almost 19% from \$367,500 in June 2012 to \$298,700 in June 2013²¹.

The vigorous activity in June is partly attributable to first time home buyers. Local brokers report that there was fierce competition among first time buyers for starter homes, or homes in the \$300,000 to \$400,000 price range.²² Mortgage rates on 30 year loans rose from a historical low of 3.3% to a 2 year high of 4.46%.²³ Buyers hoping to avoid the higher rates spurred nationwide pending home sales to a six year high.²⁴

While the housing market nationwide enjoyed its best month for pending sales in six years, Nassau County's pending sales market took a step back in June. Compared to May, there were 12.8% fewer homes entering into contract sale last month. Median contract prices rose slightly in June, by 1.9% to \$430,000.

Many buyers are looking to take advantage of the housing market. Despite a drastic increase in June, mortgage rates remain rather low; the average 30 year mortgage rate is 4.37% as of July 18, 2013.²⁵ As mentioned above, sale prices increase along with competition for available homes. Climbing sale prices usually encourage more homeowners to put their homes on the market. A host of forces are preventing a full rally in the Nassau County housing market.

²¹ Maura McDermott, "Sandy-Damaged Home Prices Slide, as Other LI Areas See Upturn," Newsday, July 25, 2013.

²² Maura McDermott, "Long Island Housing Market Gets Boost," Newsday, July 15, 2013.

²³ Marcy Gordon and Alex Veiga, "US 30 Year Mortgage Rate at 2 Year High: 4.46 percent," Long Island Business News, June 27, 2013.

²⁴ The Associated Press, "Signed Contracts to buy US homes at 6 Year High," Long Island Business News, June 27, 2013.

²⁵ Marcy Gordon, "US Rate on 30-Year Mortgage Rate Declines to 4.37 percent", Long Island Business News, July 18, 2013.

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On Long Island, the fewest homes in a decade were available for sale in the 1st Quarter of 2013.²⁶ There were fewer homes available because of the impact of the foreclosure crisis on Long Island. Outside Florida, there were only two other major metropolitan areas with more foreclosed homes (as a percentage) than Nassau and Suffolk Counties.²⁷ Due to New York State's lengthy foreclosure process, which takes an average of 1,089 days²⁸, bank owned homes are being kept out of the Nassau marketplace. Potential buyers are competing for a limited supply of homes, driving prices up.

Underwater homeowners see climbing home prices as an opportunity to get out from under their mortgages. These homeowners hold out for even higher average home sale prices, restricting the housing supply even further. The inventory problem is compounded by lenders' imposition of the strictest credit and down payment requirements in history.²⁹ First time buyers, and other buyers at the lower end of the market, have difficulty qualifying for the bigger loans required to keep up with the increase in sale prices.

Despite the down month for pending contract numbers, Nassau County's housing market is recovering. As seen in Table 6, pending contract sales were up 21.5% in June 2013 compared to June 2012. Prices rose 2.4% during this time. As the foreclosure backlog on Long Island clears, the inventory of available homes will grow. As a result, prices will moderate. As first time buyers purchase starter

homes, middle market homeowners will be able to move up in, or even out of, the Nassau marketplace. Growth should continue into 2013 as activity shifts from first time buyers to experienced buyers.

Table 7 provides Moody's projected quarterly changes in terms of new mortgages, mortgage refinancing, and median home sales prices in 2013 and 2014.

Table 7

Nassau County Housing Forecast by Quarter				
	2013			
	Q1	Q2	Q3	Q4
New Mortgages	4.91%	4.78%	5.41%	6.05%
Refinances	-14.99%	-21.08%	-24.68%	-25.40%
Median Sale Price	0.42%	0.34%	0.38%	0.48%
	2014			
	Q1	Q2	Q3	Q4
New Mortgages	6.07%	5.68%	5.03%	4.18%
Refinances	-24.31%	-21.31%	-15.84%	-8.38%
Median Sale Price	0.57%	0.64%	0.70%	0.73%

Source: Moody's Economy.com

New mortgages grow steadily throughout 2013 and 2014. Each quarter experiences between 4 and 6 percent growth in originations. Refinances continue to drop precipitously during this period. In five of the eight quarters, refinances drop by at least 20% quarter to quarter. Median sales prices are expected to record positive growth in 2013 and 2014. The tremendous annual growth in pending contract sales reported by the Multiple Listing Services of Long Island (MLSIL) reinforces Moody's forecast.

Several issues remain in the housing market, despite every positive indicator and forecast. If left unaddressed, these issues will at best prevent a full recovery. At worst, these issues threaten to entirely derail the recovery in Nassau and across the nation.

First time buyers and other buyers at the low end of the market can be thought of as pipeline buyers. As discussed earlier, shrinking inventory, rising mortgage rates, and strict borrowing requirements are forcing many

²⁶ Adam Fusfeld, "Homes for Sale on Long Island Reach Lowest Point in Decade," *Newsday*, April 25, 2013.

²⁷ Adam Fusfeld, "Foreclosure Rate Remains High on Long Island," *Newsday*, April 30, 2013.

²⁸ Adam Fusfeld, "Why Long Island Home Prices are Rising Slower than the US Average," *Newsday*, May 18, 2013.

²⁹ The Associated Press, "New Homes Sales Rise 1.5 percent in March to 417K," *Long Island Business News*, April 23, 2013.

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pipeline buyers off the path to home ownership. Crippling student loan debt is proving to be another barrier to home ownership. As a result, many of these buyers are forced to rent. This confluence of circumstances is preventing buyers from engaging in the type of beneficial economic activity associated with home ownership³⁰. If pipeline buyers cannot buy starter homes, they certainly will not be able to move up in the housing market. If there continues to be fewer pipeline buyers, mid-market homeowners will have less mobility in Nassau's housing market.

Student loan debt and borrowing requirements are barriers to home ownership that can only be tamed elsewhere. Other challenges to the housing market can be addressed here in Nassau. Last month, an article in the Long Island Business News discussed the developments of Downtown Huntington. One statistic the article cited was from a Stony Brook University poll, which revealed that 45% of Long Islanders desire to live near or in downtown areas.³¹ Nassau must adjust future development to suit changing housing tastes, or risk the consequences.

Prices

As of June 2013, the US Bureau of Labor Statistic's regional, all-items index for the Northern New Jersey-Long Island region reflects that consumer prices have increased 0.3% from a monthly and 1.8% from an annual perspective. Contributing to the annual increase is higher prices for gasoline, food and automobiles. Tame inflation has helped

consumer increase spending this year despite higher social security taxes.³²

Increased consumer price is expected from 2013 through 2017. The quarterly forecast for regional consumer prices from 2013 through 2017 is shown in Table 8. The annual growth rates may be seen on Table 1.

Table 8

Regional Consumer Price Forecast by Quarter				
	Q1	Q2	Q3	Q4
2013	0.49%	0.51%	0.58%	0.65%
2014	0.67%	0.69%	0.71%	0.70%
2015	0.72%	0.70%	0.71%	0.73%
2016	0.73%	0.75%	0.74%	0.73%
2017	0.73%	0.72%	0.72%	0.73%

Source: Moody's Economy.com

Sales Tax Predictors

As detailed in the Consumption section, although the pace of consumer spending has dropped from the start of the year, consumers are still increasing their spending. Retail sales for June increased by 0.4% from the previous month and 5.7% above June 2012. Retail chains reported their best sales gains since January and autos sales reported the biggest gain since November. It is important to monitor retail sales since historically they have constituted 54% of County sales tax collections.

Looking forward, Nassau retail sales are expected to grow. These annual sales forecast may be seen in Table 1. Table 9 details the future buyer intentions of Long Island residents. The data was obtained from Siena College Research Institute's quarterly consumer confidence survey. Currently, 76.4% of Long Island residents plan to make a large purchase over the next six months. That is up from last quarter's 68.9% but down from last year's 76.1%. Consumers plan to make major

³⁰ Bloomberg News, "Student Debt Slows Housing Recovery, Blocking First Time Buyers from Record Low Mortgage Rates," Newsday, April 15, 2013.

³¹ David Winzelberg, "Huntington Village Booms with Upstairs Housing," Long Island Business News, June 18, 2013.

³² Crutsinger, Martin, "US Consumer Prices up 0.5 percent in June on Gas Hike." Newsday, July 16, 2013.

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purchases for computers, furniture and home improvements. The future decline in auto spending can be attributed to the recent surge in car buying over the past six months.

Table 9

% of LI Residents Who Plan to Make a Major Purchase in the Next Six Months			
	Q4 12	Q1 13	Q2 13
Car or Truck	12.5%	12.7%	10.9%
Computer	18.2%	14.4%	15.8%
Furniture	23.2%	23.2%	25.2%
Home	3.1%	3.2%	2.9%
Home Improvement	19.1%	15.4%	21.6%
Buying %	76.1%	68.9%	76.4%

Source: Siena College Research Institute

Lodging Industry

Hurricane Sandy had a significant impact on the Nassau's lodging industry. Both occupancy and room rental rates experienced significant increases after the storm occurred last October. However, occupancy rates are returning to normal levels as people with previously uninhabitable homes move back in their homes and Federal Emergency Management Agency (FEMA) subsidies cease. The June occupancy rate of 83.9% is a slight increase of 1.7% compared to the same time last year. The current room rental rate of \$147.6 continues to climb and is 6.7% greater than the average rate of \$138.34 compared to last June. These trends are still positive for both Nassau County Hotel/Motel tax collections and sales tax collections.

Conclusion

Both the national and local economies are growing modestly. GDP is projected to expand in 2013. Economists are hopeful consumers spending will rebound for the second half of the year. Other positive indicators include increasing mortgage originations, home sale prices and personal income. Overall hiring has accelerated over the year as well.

There are still threats to the economic outlook such as limited consumer spending. Unemployment is still below the full rate of employment. Although consumer confidence is up for the quarter, the future outlook is not as positive. Consumers remain skeptical about the future, as current confidence is higher than the future outlook in nearly every area of New York State.

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