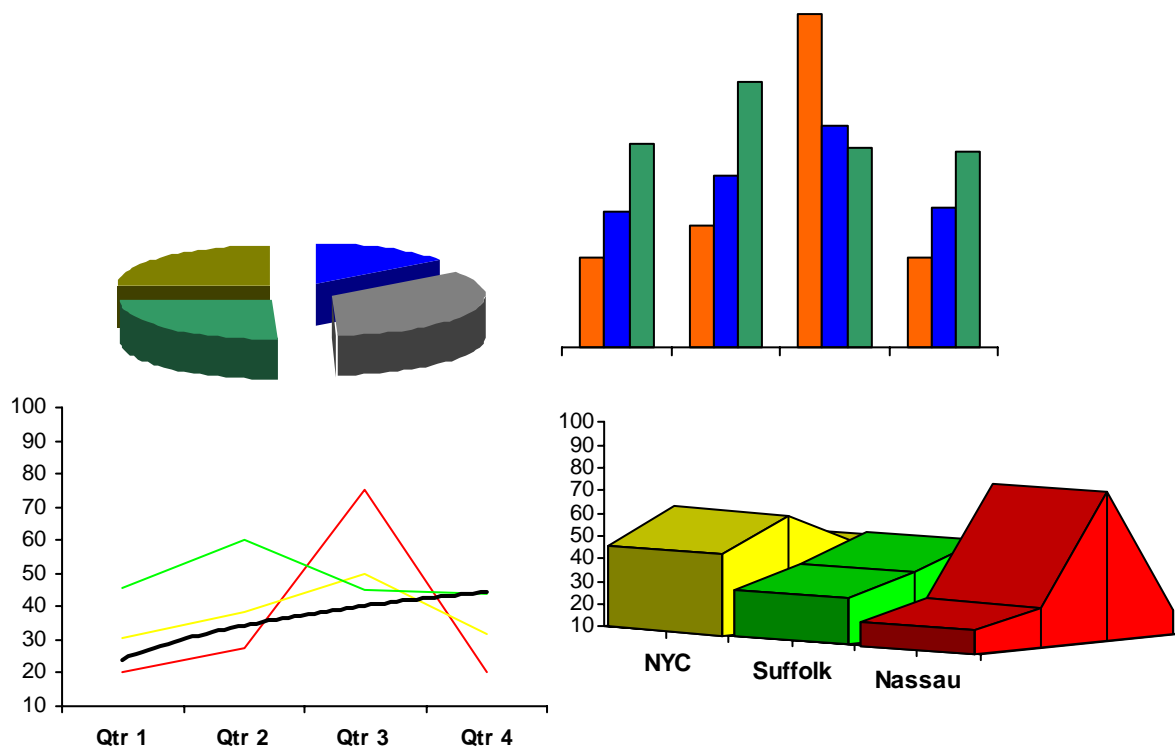




NASSAU COUNTY LEGISLATURE

Office of Legislative Budget Review

Nassau County Economic Indicators



April 2005




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BUDGET REVIEW

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Inter-Departmental Memo

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

From:  Eric C. Naughton, Director
Legislative Budget Review

Date: April 28, 2005

Re: April 2005 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
Mike Deegan, Minority Counsel
Mark Young, Budget Director
Richard Luke, Executive Director, NIFA
Dan McCloy, Special Assistant Minority
Sal Guajardo, Ph.d., Majority Finance
Ed Ward, Special Assistant to Minority
Art Gianelli, Deputy County Executive
Carol Trottere, Majority Press Secretary
Marilyn Gottlieb, Director of Legislative Affairs
Bill Geier, Clerk of the Legislature
Fran Evans, Director of Policy

April 2005 Monthly Economic Report

Our regional economy proved itself highly resilient in March 2005. Despite high inflation and rising mortgage interest rates, the region experienced healthy job, employment and housing growth. Hopefully, the job and employment growth will continue in light of experts' call for higher interest rates and oil prices in the future. David Wyss, chief Economist at Standard & Poor's in New York, is predicting another quarter point interest rate increase at the May 3, 2005 meeting of the Federal Reserve.¹ On April 4, 2005 the price of crude oil reached a record high of \$58.04 on the New York Mercantile Exchange.² A recent report by Goldman Sachs stated that, "The strength in oil demand and economic growth, especially in the United States and China ... has surprised us."³ They went on to claim that a "super spike" period is beginning in which oil prices will move towards \$105 a barrel in 2007.⁴ Others contend that \$105 is an extreme estimate. They state that high crude oil prices decrease oil demand by encouraging conservation and alternative forms of energy.⁵ In any case, crude oil prices seem to be on an upward trend. The U.S. Department of Energy is currently expecting crude oil prices to remain above \$50 a barrel through 2005 and 2006.⁶ Moreover, prices should continue to rise since we have not yet reached the peak driving summer season.

Consumer Price Indexes

Consumer Price Indexes					
New York-Northern Jersey-Long Island, NY-NJ-CT-PA region					
	<u>3/05</u>	<u>2/05</u>	<u>3/04</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
US City, CPI-U	193.3	191.8	187.4	0.8%	3.1%
Regional CPI-U	212.4	208.9	203.4	1.7%	4.4%
Core CPI-U (All Items less energy)	219.4	215.7	211.1	1.7%	3.9%
Medical	326.2	325.0	317.2	0.4%	2.8%
Housing	228.5	222.1	214.6	2.9%	6.5%
Gasoline (all types)	155.2	150.1	136.1	3.4%	14.0%

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

In March 2005, regional consumer prices experienced the highest monthly increase seen in 23 years.⁷ The monthly increase in regional consumer prices was more than double the monthly increase recorded throughout the nation. This is important to monitor since many County contracts are tied to our regional index. Analysts would not say that the regional consumer price increase was part of a new trend. They noted that the largest increase was in the "lodging away from home" category. That category includes New Yorkers' hotel stays outside of the region. It can be volatile and may have been prodded by an early Easter.⁸

¹ Crutsinger, Martin, "Inflation Surge is Biggest in Five Months", 1010Wins.com, April 20, 2005.

² Sui Lee, Wee, "Oil Prices Cross \$58 a Barrel Mark", 1010Wins.com, April 4, 2005.

³ Incantalupo, Tom, "Rocketing Oil Price Predicted", Newsday.com, April 1, 2005.

⁴ Same as above.

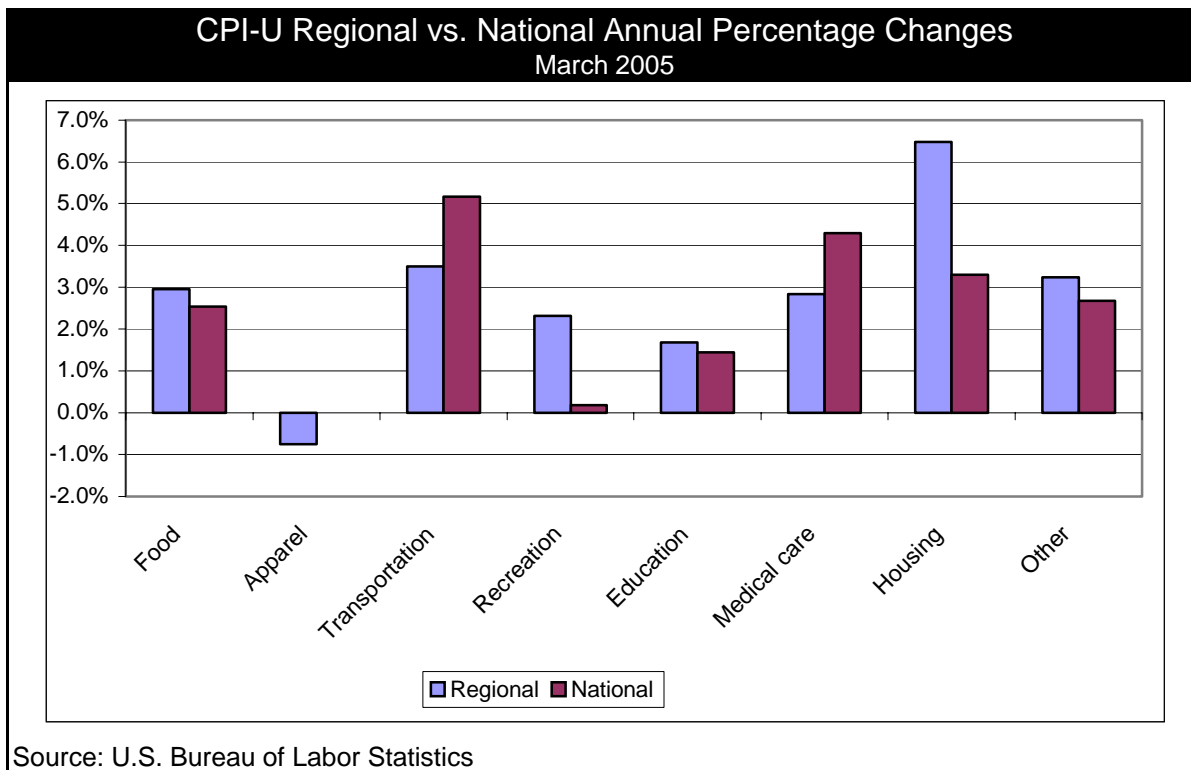
⁵ Sivy, Michael, "High-Energy Investing", CNN/Money.com, April 4, 2005.

⁶ Cohen, Stephanie L., "DOE Sees \$50-a-barrel oil through 2006", CBSMarketwatch.com, April 7, 2005.

⁷ Marshall, Randi F., "Regional Inflation Soars", Newsday.com, April 21, 2005.

⁸ Same as above.

From an annual perspective, consumer prices are up nationally 3.1% and regionally 4.4%. The chart below compares regional price appreciation to that of the nation.



Regionally, the transportation and housing sectors saw the greatest annual price appreciation. These two sectors are heavily influenced by the increasing cost of oil. The increase in the nominal price of crude oil has significant implications for the national economy, regional economy and the fiscal picture of the County.

From a national perspective, high oil prices impact consumer spending. Consumer spending is a major driver of the nation’s economy. It accounts for roughly three-quarters of economic activity.⁹ Any decline in consumer spending would therefore negatively impact the national economy. When it comes to analyzing the effect of high energy prices on consumer spending, two schools of thought have developed.

One school of thought holds that a majority of consumer spending is a function of habit rather than need. Milton Friedman’s permanent income hypothesis -- that once consumers begin to believe that their incomes will increase, they think it is perpetual -- is used to support this viewpoint. Spending habits are then based on the notion that their incomes will continue to rise.¹⁰ In this scenario, higher crude oil prices will not impact consumer spending since consumers believe that in the long-run their incomes will expand to cover the additional cost.

⁹ “Spending, Income Up”, CNN/Money.com, March 31, 2005.

¹⁰ Waters, Jennifer, “Consumers Keep Spending Despite Gas-Price Hike”, CBSMarketWatch.com, March 27, 2005.

At the other extreme, consumers are considered to enter the marketplace with well-defined preferences. They take prices as given and attempt to allocate their income to best serve their preferences.¹¹ In this scenario, as crude oil prices rise consumers must re-evaluate their preferences. Such a re-evaluation would result in less consumer spending since more of a consumer's fixed budget must go to cover energy related expenses.

In practice, the marketplace is diverse, comprised of individuals whose actions correspond to both schools of thought. The marketplace may be viewed as one where a segment operates under the perpetual income school of thought and another segment operates under the defined preferences/fixed budget model. To estimate the impact of higher crude oil prices on the economy, one would have to quantify the relative sizes of both segments. A recent Business Week article states that, "A 20% rise in gas prices from the first quarter could knock as much as two percentage points off the second quarter's annual rate of growth in consumer spending, as households divert more of their income to gas and less to discretionary purchases."¹² Indeed, a recent USA Today poll found that nearly half, 48%, of those polled have cut driving to decrease fuel bills. Additionally, 38% say that they have trimmed their other household spending.¹³

In interpreting the above listed estimation, one must remember that household and business oil consumption are more elastic over the long-term when individuals can replace out-dated, inefficient machines. Therefore, the above forecasted 2% decline in second quarter consumer spending growth may be exaggerated since consumers faced \$2 a gallon gas last spring/fall and have had time to adjust their budgets. Assuming that some adjustments were made, consumers may be more inured to high gasoline prices.¹⁴

From a regional perspective, high oil prices impact the region in the same fashion as they do the national economy, namely through changes in consumer spending. However, the economic impact of higher crude oil prices is greater on a regional level than that experienced throughout the nation due to our cold climate and greater dependence on oil-based products.

The County's fiscal budget is affected by high oil prices from both a revenue and expense perspective.

From a revenue perspective, if crude-oil prices rise and consumer spending falls, County sales tax collections will be impacted. Since many variables impact County sales tax collection, it is difficult to estimate the exact impact of higher crude oil prices on County sales tax collections. Since County sales tax collections are directly related to the price paid, as crude oil prices rise so should our sales tax collections. However, if individuals make less discretionary purchases as the price of crude oil rises, then the quantity of taxable sales would decline. The net impact on total County sales tax collections is a function of the magnitude of the opposing forces. It is likely that the decrease in consumer spending will outweigh any gains in sales tax collected from gasoline purchases.

On the expense side, the County purchases several oil-based products to facilitate its daily operations. In order to accomplish its daily tasks Nassau County purchases gasoline, heating oil, electricity, motor-

¹¹ Frank, Robert H. 2003. *Microeconomics and Behavior*. New York, McGraw-Hill Companies, Inc.

¹² Cooper, James C. and Kathleen Madigan, "Consumers May Just Keep Flexing Their Muscles", *Business Week*, April 11, 2005.

¹³ Healey, James R., "Gas Prices Set Record on Penny-a-Day Climb", *USAToday.com*, April 4, 2005.

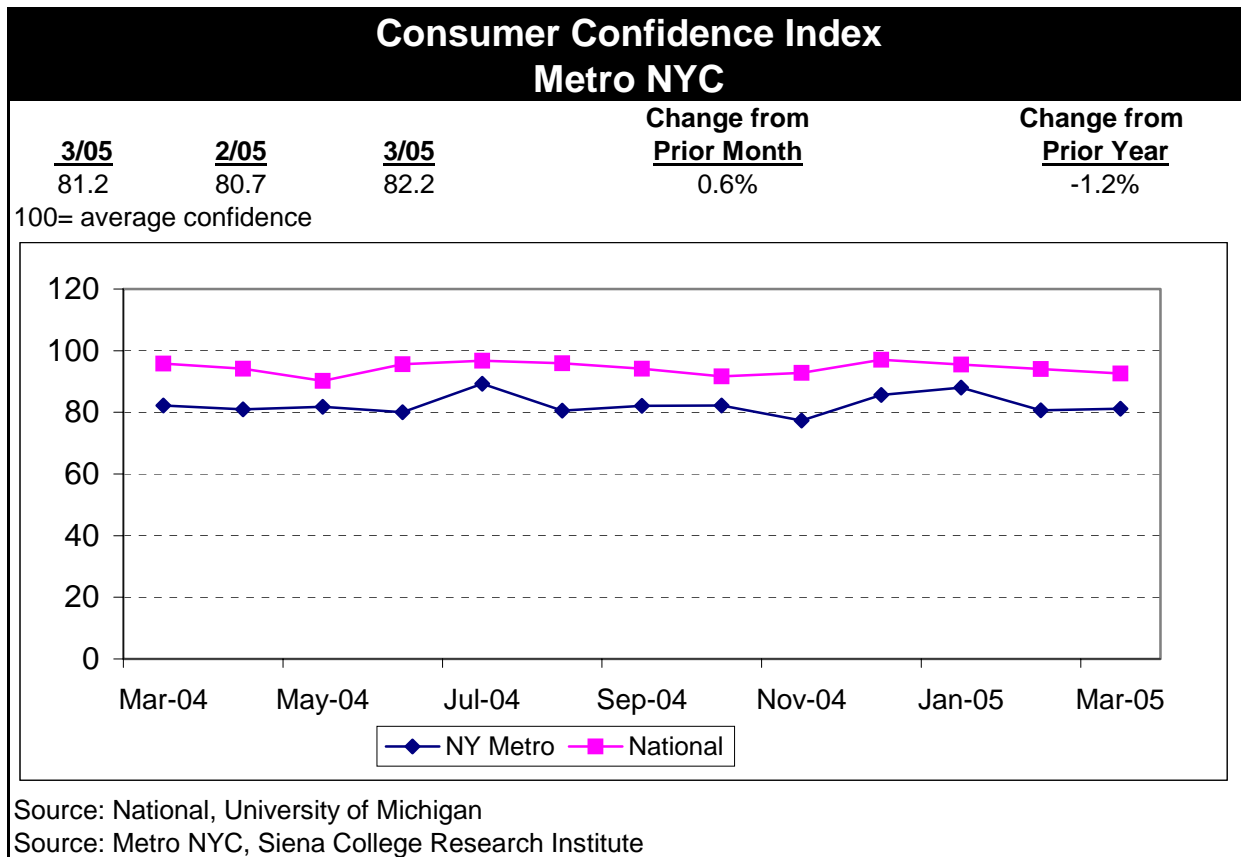
¹⁴ Cooper, James C. and Kathleen Madigan, "Consumers May Just Keep Flexing Their Muscles", *Business Week*, April 11, 2005.

oil, asphalt, fertilizer and pesticides. As a rough approximation, 1.5% (\$38.4 million) of the County’s expense budget covers oil-based product purchases. This percentage could grow as the price of crude-oil increases.

Consumer Confidence Index

In March 2005, regional consumer confidence increased from a monthly perspective and declined from an annual viewpoint. Nationally, consumer confidence was down from both a monthly and an annual perspective. Dr. Douglas Lonnstrom, Director of the Siena College Research Institute, said, “Consumer confidence took a big hit in February but bounced back slightly in March. We made up some ground against the nation, but still are 13 points down. Energy prices, rising interest rates and the job market are still taking a toll.”¹⁵

Coinciding with the decline in national consumer confidence, national indices of consumer spending fell short of expectations. The Commerce Department’s index of national retail sales missed market forecasts, by rising only 0.3%. Economists had expected March 2005 national retail sales to increase 0.7%, since consumers typically stock up on spring clothes during Easter.¹⁶ Analysts attributed the below expectation results to cold weather, high energy costs and the threat of rising interest rates.¹⁷



¹⁵ “New York Consumer Confidence for March”, Siena College Research Institute, April 15, 2005.

¹⁶ “Retail Sales Weaker than Expected in March”, USAToday.com, April 13, 2005.

¹⁷ Chu, Vivian, “Retailers Post Mixed March Sales on Weather”, 1010Wins.com, April 7, 2005.

Local Area Employment Figures

March 2005 was a strong employment month. All areas surveyed saw an increase in resident employment coupled with a decrease in the unemployment rate and the number of unemployed residents. Those trends were seen from both a monthly and an annual perspective.

Excluding New York City, all areas surveyed recorded an annual increase in their labor force. Strong employment figures will help residents cope with the increase recorded in consumer prices.

Comparison of Employment Statistics (figures in thousands)					
	<u>3/05</u>	<u>2/05</u>	<u>3/04</u>	Change from <u>Prior Month</u>	Change from <u>Prior Year</u>
<u>Nassau</u>					
Employed	653.7	650.4	644.2	0.5%	1.5%
Unemployed	27.3	29.9	34.1	-8.7%	-19.9%
Unemployment rate	4.0%	4.4%	5.0%	-9.1%	-20.0%
<u>Suffolk</u>				Change from <u>Prior Month</u>	Change from <u>Prior Year</u>
Employed	729	725.4	718.4	0.5%	1.5%
Unemployed	32.1	36.7	40.3	-12.5%	-20.3%
Unemployment rate	4.2%	4.8%	5.3%	-12.5%	-20.8%
<u>NYC</u>				Change from <u>Prior Month</u>	Change from <u>Prior Year</u>
Employed	3,506.0	3,491.0	3,440.0	0.4%	1.9%
Unemployed	198.0	241.0	300.0	-17.8%	-34.0%
Unemployment rate	5.3%	6.5%	8.0%	-18.5%	-33.8%
<u>Nation</u>				Change from <u>Prior Month</u>	Change from <u>Prior Year</u>
Employed	139,759.0	139,100.0	137,691.0	0.5%	1.5%
Unemployed	7,986.0	8,549.0	8,834.0	-6.6%	-9.6%
Unemployment rate	5.4%	5.8%	6.0%	-6.9%	-10.0%

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>3/05</u>	<u>2/05</u>	<u>3/04</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Natural Resources, Construction & Mining	61.8	59.1	61.5	4.6%	0.5%
Manufacturing	88.7	87.6	88.3	1.3%	0.5%
Wholesale Trade	72.1	72.1	71.9	0.0%	0.3%
Retail Trade	158.7	157.5	158.4	0.8%	0.2%
Transportation, Warehousing & Utilities	37.1	36.9	36.0	0.5%	3.1%
Information	28.6	28.5	28.7	0.4%	-0.3%
Financial Activities	83.8	83.0	83.3	1.0%	0.6%
Professional & Business Services	152.8	150.2	149.3	1.7%	2.3%
Educational & Health Services	200.9	198.6	197.4	1.2%	1.8%
Leisure & Hospitality	91.2	88.1	87.2	3.5%	4.6%
Other Services	51.2	50.8	50.8	0.8%	0.8%
Government	201.1	199.8	201.6	0.7%	-0.2%
Total	<u>1,228.0</u>	<u>1,212.2</u>	<u>1,214.4</u>	<u>1.3%</u>	<u>1.1%</u>
Source: NYS Department of Labor					

The Long Island region recorded strong job growth in March 2005. Total job growth was above the 1% mark, indicative of healthy growth, from both a monthly and an annual perspective. The job growth was diverse; no decreases were recorded from a monthly perspective and ten of the twelve sectors recorded increases from an annual perspective.

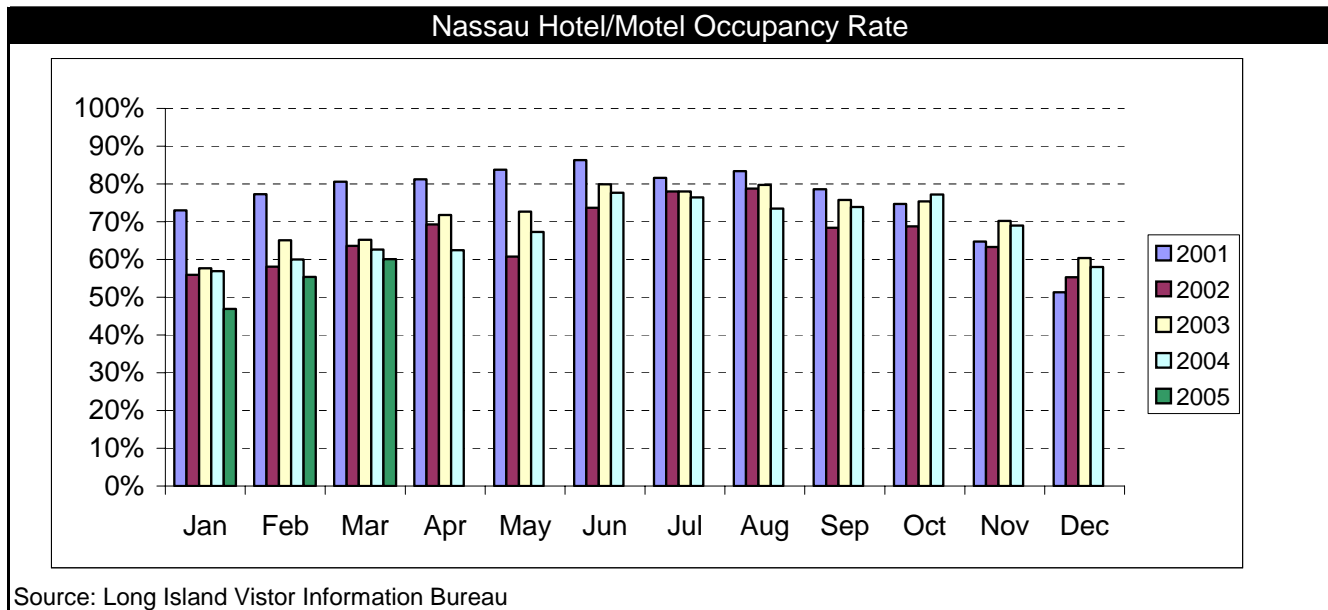
From a monthly viewpoint the Natural Resources, Construction & Mining sector saw the greatest number of new jobs. Trailing that sector in terms of monthly job gains was the Leisure & Hospitality sector.

From an annual perspective, the Leisure & Hospitality sector experienced the most job gains. New jobs in this sector are beneficial for County Hotel/Motel tax collections. Additionally, gains in the Leisure & Hospitality sector are important indicators of the overall strength of the Hotel/Motel

industry. Over the past 5 years more than 2,000 new hotel rooms have been added to Long Island. These new rooms make it impossible to compare occupancy rates from year to year. The new rooms have resulted in an Island-wide decline in occupancy rates. Analysts expect the downward trend in occupancy rates to continue since 21 more properties with 3,500 new rooms are being planned.¹⁸

The Lodging Industry

From an annual perspective, March 2005 witnessed a decline in Hotel/Motel Occupancy rates coupled with an increase in average room rental rates. As mentioned previously, current occupancy rates can not directly be compared to those from the prior year since the number of hotel rooms was different during the two time periods. However, gauging from the strong number of new jobs created in the industry and the ability of hotels and motels to raise their rates, demand seems strong for our local hotels and motels.



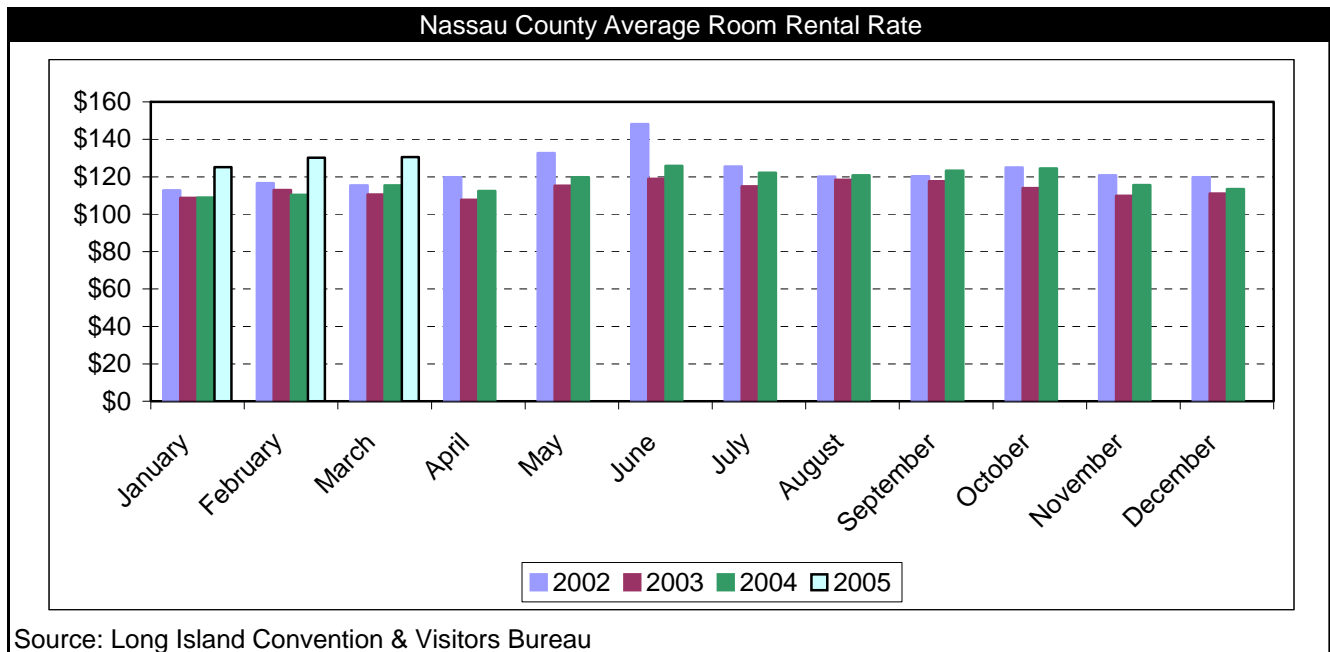
The chart above details hotel/motel occupancy rates in Nassau County over the past five years. First quarter 2005 occupancy rates were at five year lows. As mentioned previously, due to fact that several new hotels and motels have been built over this time frame, trends in occupancy rates cannot be used to drawn conclusions about the health of the industry.

Nassau County Hotel / Motel Occupancy Rate					
	<u>3/05</u>	<u>2/05</u>	<u>3/04</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Occupancy Rate	60.1%	55.4%	46.9%	8.5%	28.1%

Source: Long Island Convention and Visitors Bureau

¹⁸ Marshall, Randi F., "More Hotel Rooms but Weak Demand", [Newsday.com](http://www.newsday.com), April 14, 2005.

The chart on the next page shows average room rental rates in Nassau over the previous four years. During the first quarter 2005, average room rental rates were at four year highs. The fact that hotels and motels have been able to raise their rates during a time of increasing supply, shows that robust demand exists for the County lodging industry.



Residential Housing Market

Nationally, the housing market took a few steps back in March 2005. According to the Commerce Department, national housing starts fell 17.6% in March. This represented the largest monthly decline in more than 14 years. Analysts had been expecting the housing market to begin to cool, however not at that rate. Economists were projecting a 4.8% decline in March.¹⁹

Analyzing the report by region reveals that our regional housing market is the most resilient. Housing starts fell by 29.3% in the Midwest, 18% in the South, 12.7% in the West and 3.6% in the Northeast.²⁰ Job and income growth in the Northeast and West appear to be sufficient to enable builders and homeowners to keep up with rising energy and interest costs. In fact a recent Mortgage Bankers Association study found that, “Homeowners in so-called “bubble” markets such as California, Nevada, New England, Florida, the Mid-Atlantic and the District of Columbia are more likely to pay their mortgage on time than homeowners in parts of the country with lower housing inflation rates.”²¹

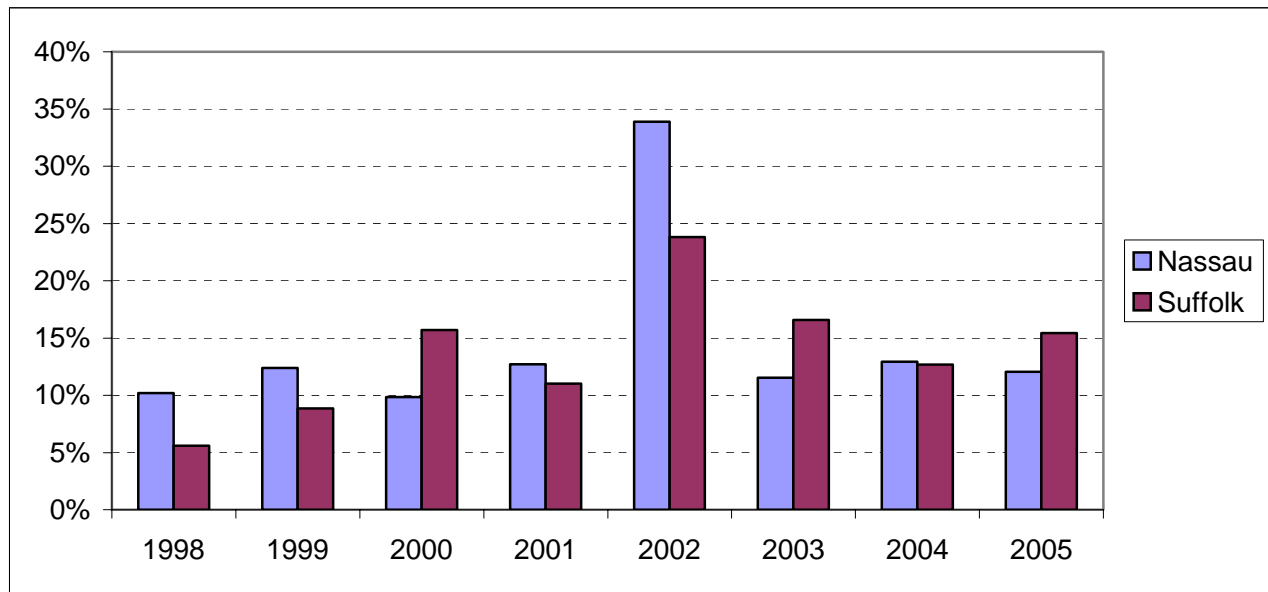
The resiliency of the local housing market is evident in the Multiple Listing Service of Long Island statistics depicted in the charts below.

¹⁹ “Housing Starts Plunge 17.6%; Wholesale Prices Up 0.7%”, USAToday.com, April 19, 2005.

²⁰ Same as above.

²¹ Harney, Keith, “Paying On Time in the “Bubble””, Newsday.com, March 25, 2005.

Annual Percentage Change in Residential Housing Average Closing Price
 2005 figures are projections based prices through March 2005

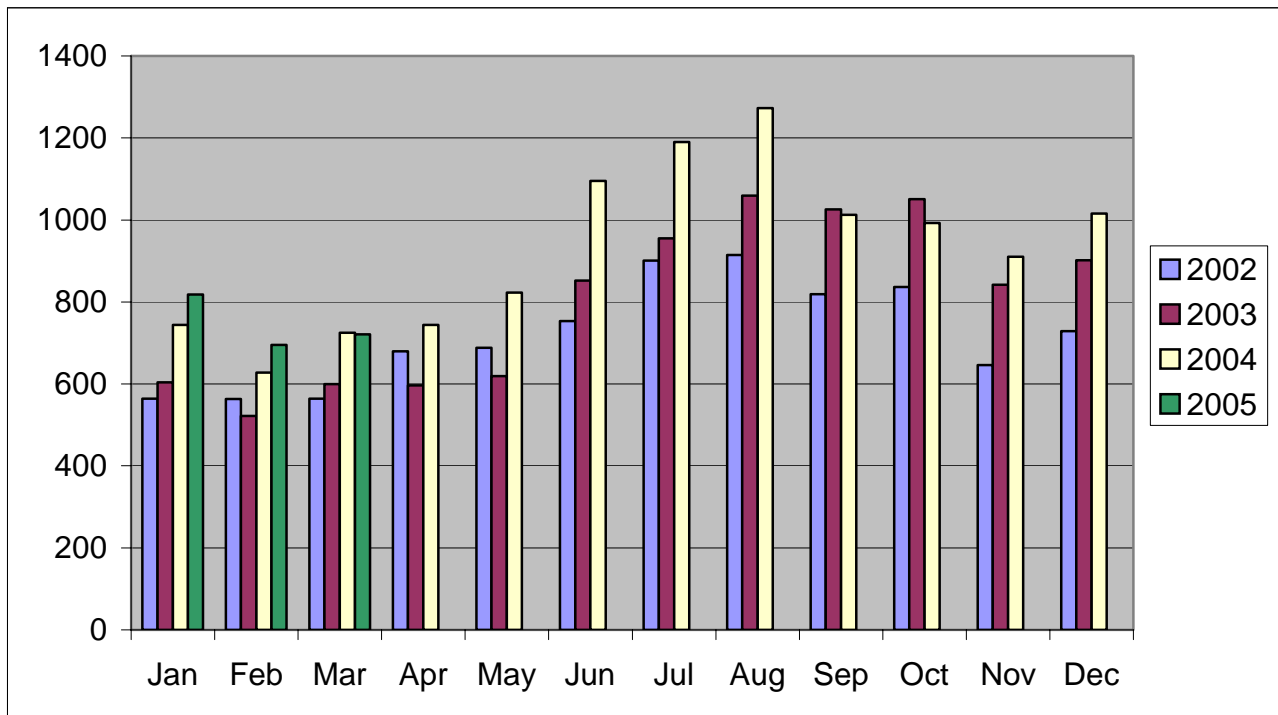


Source: Multiple Listing Service of Long Island

In March 2005, Nassau County recorded a 16.5% annual increase in average closed residential home prices. Suffolk County experienced a 16.2% annual increase in average closed residential home prices. In March 2005, Nassau's average closing price was \$571,600 and Suffolk's was \$427,400.

The chart below details the number of closed transactions in Nassau County by month. In March 2005 there were 721 closed transactions completed. That is higher than February 2005's 695 level and lower than March 2004's 725 level.

Nassau County Closed Residential Transactions by Month



Source: Multiple Listing Service of Long Island, MLSLI

Residential inventory levels rose on Long Island in March from both a monthly and an annual vantage point. Residential inventory levels in Nassau increased by 8.5% from the prior month. Similarly, in Suffolk County residential inventory levels rose 7.2% from February 2005. Both counties recorded annual increases in their inventory levels.

Conclusion

This month, our regional economy had to contend with the greatest monthly increase recorded in 23 years in regional consumer prices. Additionally, on April 4, 2005 the price of crude oil reached a record high of \$58.04 on the New York Mercantile Exchange.²² More data are required to see if these increases were transitory or if they were part of a new trend. So far, in spite of the higher prices, our regional economy was able to grow in term of jobs and employment. More data will be required to see if the local economy can continue to grow and if prices continue to rise at such a quick pace.

²² Sui Lee, Wee, "Oil Prices Cross \$58 a Barrel Mark", 1010Wins.com, April 4, 2005.