



ERIC C. NAUGHTON  
DIRECTOR  
OFFICE OF LEGISLATIVE  
BUDGET REVIEW

**NASSAU COUNTY LEGISLATURE**

1550 FRANKLIN AVENUE, ROOM 126  
MINEOLA, NEW YORK 11501  
(516) 571-6292

**Inter-Departmental Memo**

To: Hon. Judy Jacobs, Chairperson  
Members of the Budget Review Committee

From: Eric C. Naughton, Director *EM*  
Legislative Budget Review

Date: May 14, 2009

Re: Regional and National Forecast for April 2009

---

Attached is a copy of the Office of Legislative Budget Review's Regional and National Forecast for April 2009. The report is intended to assist the Legislature in making policy decisions and in assessing budgetary forecasts. The data presented are the most current as of the date of circulation and are the most geographically relevant. This report also reflects Economist, Deirdre Calley's testimony at the May 7, 2009 Budget Review Hearing.

cc: Hon. Howard Weitzman, County Comptroller  
Martha Wong, Director, OMB  
Christopher Ostuni, Minority Counsel  
Evan Cohen, Executive Director, NIFA  
Dan McCloy, Special Assistant Minority  
Tom Stokes, Deputy County Executive  
Charo Ezdrin, Director of Legislative Affairs  
Chumi Diamond, Clerk of the Legislature  
Edgar Campbell, Chief of Staff  
Roseann D'Alleva, Majority Finance



## OFFICE OF LEGISLATIVE BUDGET REVIEW

### The Regional and National Economic and Fiscal Forecast for 2009, 2010 and 2011

April 2009

Based on the April 2009 regional economic forecast, the area is facing a more sizeable and lengthy recession than was previously estimated.

The data obtained from Moody's Economy.com shows Nassau's Real County Product falling 4.2% in 2009. That is 1.5 percentage points greater than January 2009's forecast. Similarly, non-farm jobs and retail sales are now projected to experience declines more than 1% higher than what was previously estimated.

Additionally, the turnaround points for several of the variables have been pushed back a quarter, meaning a longer lasting recession. Previously, positive growth in mortgage originations was expected to occur during the second quarter of 2010. That turnaround point is now seen as occurring in the third quarter of 2010. Moreover, positive growth in non-farm jobs was forecast to resume in the third quarter of 2010. That point is now expected to occur during the fourth quarter of 2010.

The recession is forecast to be of a U-shaped form. That is, there will be a gradual resumption in economic growth. Although the previously detailed turnaround points are expected to occur in 2010, the projected growth rates are not robust. Regional non-farm job growth of 1% or higher is considered strong. Nassau is not expected to record job growth of that magnitude until the second quarter of 2011.

Table 1 below details the current annual forecast for all Nassau County economic variables in 2009, 2010 and 2011. The highlighted growth rates reveal when the index is expected to record positive growth.

**Table 1**

| 2009, 2010 and 2011 Nassau County Economic Forecast |                  |                  |                  |
|---|------------------|------------------|------------------|
|   | Annual<br>2009 % | Annual<br>2010 % | Annual<br>2011 % |
| Real GDP  | -4.2%            | 0.2%             | 1.2%             |
| Personal Income                                     | -4.3%            | 0.4%             | 2.8%             |
| Total Employed                                      | -2.2%            | -0.3%            | 1.5%             |
| Total Unemployed                                    | 46.1%            | 14.0%            | -15.0%           |
| Nonfarm Jobs  | -3.8%            | -1.1%            | 1.2%             |
| Mrt Origins   | -38.6%           | 0.9%             | 10.9%            |
| Mrt Refi  | 110.1%           | -51.2%           | -43.0%           |
| Retail Sales  | -8.0%            | 2.6%             | 3.3%             |
| Home Sales Price                                    | -22.5%           | -11.0%           | 1.8%             |
| Regional CPI  | -0.7%            | 2.2%             | 2.8%             |

Source: Moody's Economy.com

Table 1 above shows that the recovery will first take hold and will be visible in real GDP, personal income, mortgage originations, retail sales and consumer prices. These variables will record annual positive growth rates in 2010. The recovery will not be evident in the employment market, as indicated by annual positive resident employment and non-farm job growth, or home sale prices until 2011.

The following sections provide a more detailed analysis of the individual economic indices.

# The Regional and National Economic and Fiscal Forecast for 2009, 2010 and 2011

## Real GDP

According to Moody's Economy.com, in both Nassau and Suffolk Counties, real GDP is going to be negative throughout 2009. 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.

**Table 2**

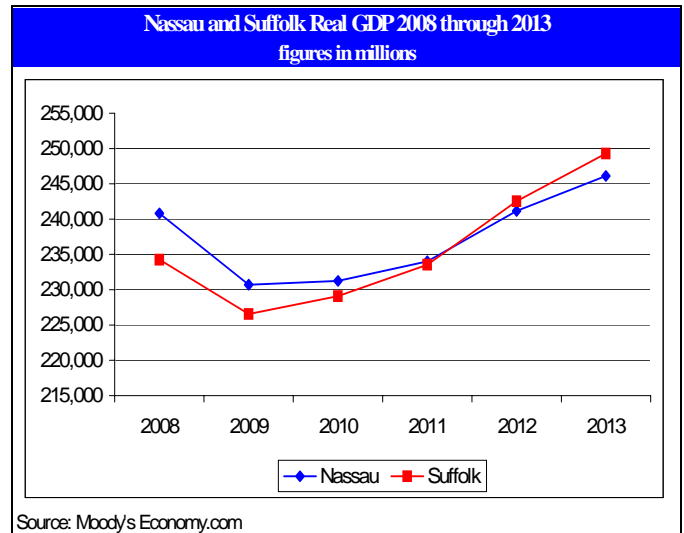
| Forecast for Real GDP Growth by Quarter |       |       |       |       |
|---|-------|-------|-------|-------|
| 2009                                    | Q1    | Q2    | Q3    | Q4    |
| Nassau                                  | -4.3% | -4.8% | -4.4% | -3.2% |
| Suffolk                                 | -3.2% | -3.9% | -3.7% | -2.4% |
| U.S.                                    | -2.2% | -3.3% | -3.4% | -1.5% |
| 2010                                    | Q1    | Q2    | Q3    | Q4    |
| Nassau                                  | -1.5% | 0.1%  | 1.1%  | 1.3%  |
| Suffolk                                 | -0.6% | 1.0%  | 2.0%  | 2.2%  |
| U.S.                                    | 0.1%  | 1.2%  | 2.2%  | 2.9%  |

Source: Moody's Economy.com

Table 2 details the 2009 forecast by quarter. Real GDP is expected to turn positive on Long Island in the second quarter of 2010. However, the magnitude of the turnaround will be much more pronounced in Suffolk County. Suffolk County is expected to record second quarter 2010 real GDP growth of 1.0%. The same time period in Nassau County is projected to be 0.1%.

A detailed look at the projected real GDP level reveals that both Nassau and Suffolk County are expected to experience a U shaped recession. That is, after reaching the bottom, economic activity will eventually reach its previous level. This may be seen in Chart 1, in the opposite column. The bottom is expected to occur in 2009. By 2012, real GDP is expected to surpass its 2008 level.

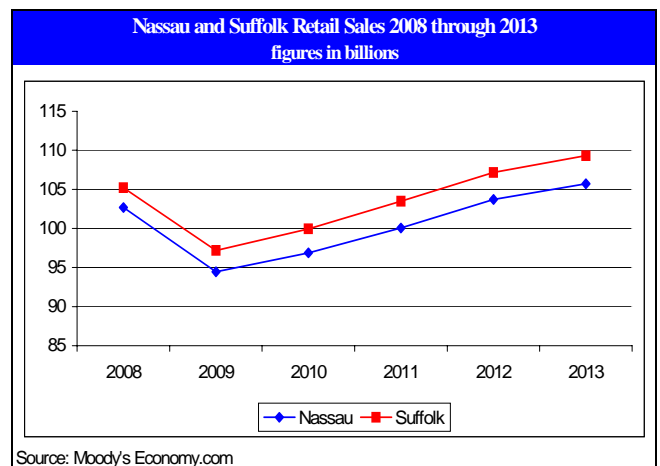
**Chart 1**



Personal income and retail sales on Long Island are similarly expected to register positive growth during the second quarter 2010. Moreover, the recovery is expected to be stronger in Suffolk County.

A detailed look at the projected retail sales level reveals that its recovery will be more V like. The bottom is expected to occur in 2009. Moreover, 2008 levels will be surpassed in Suffolk in 2012 and in 2013 in Nassau. These variables are shown in Chart 2 below.

**Chart 2**



## The Regional and National Economic and Fiscal Forecast for 2009, 2010 and 2011

The projected negative consumption growth rates translate into sluggish County sales tax collections. According to the projection, County Sales Tax collections would not attain the 2008 level until 2012.

Table 3 below details the current forecasts for national real GDP. Moody's is forecasting negative national GDP throughout 2009. However, the Mortgage Bankers' Association, (MBA) and the PMI Mortgage Insurance Company (PMI) forecasts expect positive national GDP growth by the second half of 2009.

**Table 3**

| National Real GDP 2009 Quarterly Forecast     |       |       |       |       |
|---|-------|-------|-------|-------|
|   | Q1    | Q2    | Q3    | Q4    |
| <b>Moody's</b>                                | -2.2% | -3.3% | -3.4% | -1.5% |
| <b>MBA</b>                                    | -5.1% | -0.6% | 0.0%  | 1.4%  |
| <b>PMI</b>                                    | -5.8% | -2.5% | -0.1% | 1.9%  |
| <b>Avg.</b>                                   | -4.4% | -2.1% | -1.2% | 0.6%  |
| National Real GDP Annual Forecast 2009 & 2010 |       |       |       |       |
|   | 2009  | 2010  |       |       |
| <b>Moody's</b>                                | -2.6% | 1.6%  |       |       |
| <b>MBA</b>                                    | -1.1% | 2.8%  |       |       |
| <b>PMI</b>                                    | -1.7% | 3.0%  |       |       |
| <b>Avg.</b>                                   | -1.8% | 2.5%  |       |       |

Nassau County economy is expected to be more severely impacted by the recession than the nation as a whole. It is projected to record a larger quarterly real GDP decline in 2009. Moreover, it is projected to have a worse recovery in terms of real GDP growth throughout 2010.

### Employment

The forecast for the regional and national labor markets is bleak. According to the New York State Department of Labor, the current Nassau County unemployment rate stands at 6.9% for March 2009. This rate is expected to rise throughout 2009 and during the first half of 2010. All areas surveyed are expected to record decreases in employed residents throughout

2009. Unemployment rates are expected to continue to climb after the declines in resident employment begin to ebb. This is due to the fact that as the labor market begins to pick up, residents who had dropped out of the labor market will re-enter thereby increasing the unemployment rate.

**Table 4**

| Nassau Employment by Quarter, 2009 and 2010 |       |       |       |       |
|---|-------|-------|-------|-------|
| 2009  |       |       |       |       |
|   | Q1    | Q2    | Q3    | Q4    |
| Total Employed                              | -1.9% | -2.4% | -2.5% | -2.1% |
| Unemployment %                              | 6.1%  | 6.7%  | 7.2%  | 7.5%  |
| 2010  |       |       |       |       |
|   | Q1    | Q2    | Q3    | Q4    |
| Total Employed                              | -1.4% | -0.6% | 0.1%  | 0.7%  |
| Unemployment %                              | 7.8%  | 7.9%  | 7.8%  | 7.6%  |

Source: Moody's Economy.com

Table 4 depicts the current forecast for Nassau County employed residents and the unemployment rate. Nassau County is not expected to see positive growth in resident employment until the third quarter of 2010. The employment gains made in 2010 are not expected to make up for the losses experienced in 2009, leaving Nassau County with a net decrease in resident employment of 0.3% in 2010. Moreover, Nassau County's unemployment rate is expected to climb through the second quarter of 2010, reaching a high of 7.9%.

Suffolk County is expected to stop shedding employed residents in the second quarter of 2010 and see positive growth in resident employment starting in the third quarter of 2010. Unemployment rates in Suffolk County are projected to reach a peak of 8.4% during the second quarter of 2010.

Looking at the actual levels of resident employment reveals that Nassau County will not attain its 2008 level of employed residents until 2012. In Suffolk, resident employment figures

# The Regional and National Economic and Fiscal Forecast for 2009, 2010 and 2011

are expected to recover faster and 2008's level is forecast to be reached in 2011.

Table 6 reveals the national labor market forecast. The country is expected to stop shedding employed residents by the second quarter of 2010. However, the country's unemployment rate is expected to reach a high of 9.8% in the second quarters of 2010.

**Table 6**

| US Employment by Quarter, 2009 and 2010 |       |       |       |       |
|---|-------|-------|-------|-------|
| 2009                                    |       |       |       |       |
|   | Q1    | Q2    | Q3    | Q4    |
| Total Employed                          | -3.1% | -3.5% | -3.5% | -2.7% |
| Unemployment %                          | 8.1%  | 8.7%  | 9.2%  | 9.5%  |
| 2010                                    |       |       |       |       |
|   | Q1    | Q2    | Q3    | Q4    |
| Total Employed                          | -0.9% | -0.1% | 0.7%  | 1.4%  |
| Unemployment %                          | 9.7%  | 9.8%  | 9.7%  | 9.4%  |

Source: Moody's Economy.com

**Non Farm Jobs**

The Long Island region is not expected to undergo a jobless recovery. Rather, the projected recovery for non farm jobs in both Nassau and Suffolk County is U shaped. This may be seen in chart 3. Suffolk County currently has more non farm jobs than Nassau County and this pattern is expected to continue through 2013. The bottom in the non farm job market is not supposed to occur until 2010. This means that not only will there be fewer employed Nassau County residents in 2009, but there will be less local jobs for the unemployed residents to apply for.

**Chart 3**

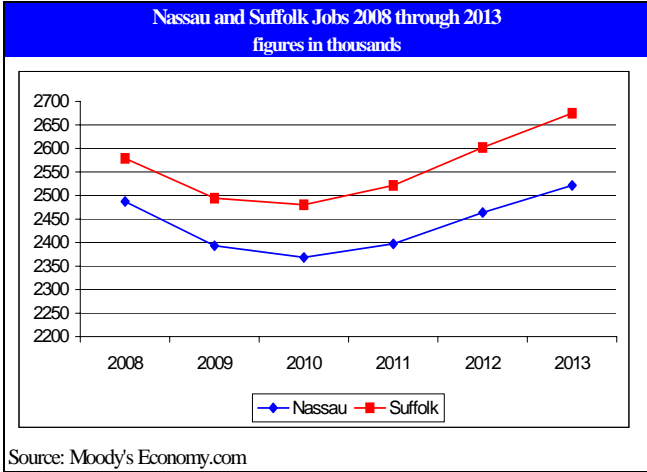


Chart 3 above records the forecast for non-farm job levels in both Nassau and Suffolk Counties from 2008 through 2013. Both counties are expected to shed jobs in 2009 and 2010.

**Housing**

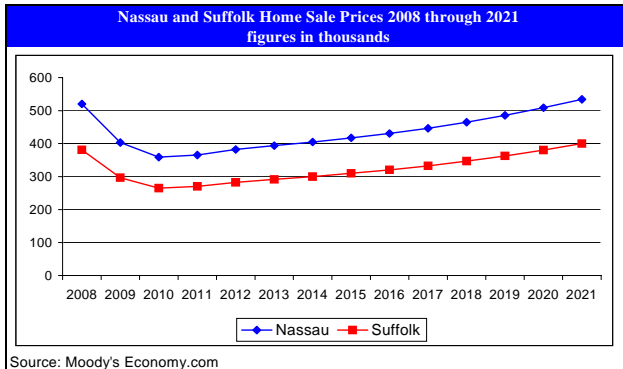
The housing market is still experiencing declines. As of April 2009, Multiple Listing Service of Long Island figures reveal that median closed sale prices in Nassau are down 15% and the number of closed transactions has fallen 15.4%. The decline is expected to continue in 2009. Moreover, the housing market is expected to experience the slowest recovery. However the housing market is also the one source of bustling activity since low interest rates have resulted in a significant increase in refinancings.

The average home sale prices are not expected to reach their 2008 level again until 2021. Chart 4 on the following page reveals that the recovery in home sale prices is forecast to be L-like. Average home sale prices are expected to reach bottom in 2010. Nassau's 2010 annual average sale price is expected to be \$358,713 and Suffolk's 2010 annual average sale price is expected to be \$264,832. The projected 2010

# The Regional and National Economic and Fiscal Forecast for 2009, 2010 and 2011

home sale price floor is 11% below the projected 2009 annual average.

**Chart 4**



Since mortgage interest rates have dropped so precipitously recently, many homeowners are finding it possible to obtain significant savings by refinancing their mortgages. Moody's is expecting mortgage refinancings to increase significantly in both Nassau and Suffolk Counties in 2009. In 2010, refinancing activity is forecast to decline throughout the year on Long Island. The surge in mortgage refinancing should lessen the shortfall expected in County Clerk fee revenues. Table 7 below details the quarterly forecast for refinancings on Long Island during 2009 and 2010.

**Table 7**

| 2009    |       |        |        |        |
|---------|-------|--------|--------|--------|
|         | Q1    | Q2     | Q3     | Q4     |
| Nassau  | 58.9% | 180.1% | 177.8% | 66.3%  |
| Suffolk | 59.1% | 180.2% | 177.6% | 66.2%  |
| 2010    |       |        |        |        |
|         | Q1    | Q2     | Q3     | Q4     |
| Nassau  | -9.6% | -49.2% | -67.1% | -71.3% |
| Suffolk | -9.7% | -49.3% | -67.1% | -71.3% |

Source: Moody's Economy.com

Individuals seeking to refinance face several hurdles. Due to the previously mentioned declining home sale prices, many might not have the equity necessary to refinance.

Especially since credit standards are high and lenders require 20% equity. High credit standards have also resulted in fewer warehouse lines of credit, the money banks use to finance home loans, since lenders want to limit their exposure to bad loans.<sup>1</sup> Lastly, since fewer loans are being made, employment in the mortgage industry is down. Industry analysts opine that the decrease in employment coupled with the reduction in warehouse lines of credit is limiting the number of refinancings which may be completed.<sup>2</sup>

Lower mortgage interest rates are not expected to entice buyers to the market on Long Island until 2010. By year end 2009, mortgage originations in both Nassau and Suffolk Counties are projected to decline 38.6% from 2008's level. Table 8 below details these projections on a quarterly basis for both Nassau and Suffolk Counties.

**Table 8**

| 2009    |        |        |        |        |
|---------|--------|--------|--------|--------|
|         | Q1     | Q2     | Q3     | Q4     |
| Nassau  | -50.5% | -42.8% | -31.6% | -19.4% |
| Suffolk | -50.1% | -42.8% | -32.0% | -20.0% |
| 2010    |        |        |        |        |
|         | Q1     | Q2     | Q3     | Q4     |
| Nassau  | -8.3%  | -0.1%  | 5.1%   | 7.8%   |
| Suffolk | -8.8%  | -0.1%  | 5.4%   | 8.1%   |

Source: Moody's Economy.com

Mortgage originations on Long Island are expected to rebound in the third quarter of 2010. By year end, mortgage originations in both Nassau and Suffolk Counties are projected to increase roughly 0.9% from 2009's level.

<sup>1</sup> ElBoghady, Dina, "Lenders Struggle to Find Cash to Quench Growing Demand for Refinancing", *The Washington Post*, April 2, 2009.

<sup>2</sup> Kopecki, Dawn, "Mortgage Originations May Double to \$3.1 Trillion", *Bloomberg.com*, March 27, 2009.



# The Regional and National Economic and Fiscal Forecast for 2009, 2010 and 2011

Even though home sale volumes are expected to pick up in 2010, home prices are not forecasted to rise on Long Island during the 2009 to 2010 time period. As mentioned at the beginning of this section, home prices on Long Island will not erase the current losses until 2021. Table 9 details the quarterly forecast for Nassau and Suffolk County during 2009 and 2010.

**Table 9**

| Home Sale Prices by Quarter, 2009 and 2010 |        |        |        |        |
|--|--------|--------|--------|--------|
| 2009                                       |        |        |        |        |
|  | Q1     | Q2     | Q3     | Q4     |
| Nassau                                     | -19.8% | -23.4% | -24.5% | -22.6% |
| Suffolk                                    | -19.7% | -23.0% | -24.0% | -22.1% |
| 2010                                       |        |        |        |        |
|  | Q1     | Q2     | Q3     | Q4     |
| Nassau                                     | -18.5% | -13.0% | -7.6%  | -3.4%  |
| Suffolk                                    | -18.1% | -12.7% | -7.4%  | -3.2%  |

Source: Moody's Economy.com

## Prices

Regional and national consumer prices are expected to decline from an annual perspective in 2009. All areas surveyed are expected to register positive consumer price growth in 2010. The declining consumer prices experienced during 2009 will impact County sales tax collections which are a function of both quantity sold and price paid. Table 10 below details the 2009 and 2010 quarterly forecast for consumer prices.

**Table 10**

| Consumer Prices, 2009 and 2010 |       |       |       |       |
|--------------------------------|-------|-------|-------|-------|
| 2009                           |       |       |       |       |
|                                | Q1    | Q2    | Q3    | Q4    |
| Regional                       | 0.4%  | -0.7% | -2.0% | -0.4% |
| National                       | -0.2% | -1.3% | -2.4% | -0.1% |
| 2010                           |       |       |       |       |
|                                | Q1    | Q2    | Q3    | Q4    |
| Regional                       | 1.0%  | 2.0%  | 2.6%  | 3.0%  |
| National                       | 1.1%  | 1.8%  | 2.1%  | 2.4%  |

Source: Moody's Economy.com

## Conclusion

The economic forecast for Nassau County in 2009 is worse than previously thought. The recession is expected to be more sizeable and last longer than previously thought. None of the economic indices surveyed are expected to turn around in 2009. All indicators are expected to register positive growth by 2011. However, it will take even longer for the region to achieve the levels experienced in 2008.

OLBR opines that it is possible for the region to experience a more L-shaped recession in terms of real GDP and retail sales. This is due to the fact that the County's previous GDP and retail sales levels were dependent on home equity spending. If home prices are not expected to reach their 2008 levels until 2021, OLBR questions how real GDP and retail sales could return their 2008 levels nine years before home sale prices.

**Table 11**

| Year When Nassau Will Attain It's 2008 Level |      |
|--|------|
| Index  | Year |
| Real GDP                                     | 2012 |
| Retail Sales                                 | 2012 |
| Non-Farm Jobs                                | 2013 |
| Mortgage Originations                        | 2015 |
| Home Sale Prices                             | 2021 |

Source: Moody's Economy.com

*Prepared by:  
Deirdre K. Calley,  
Economist  
Office of Legislative Budget Review  
(516) 571-1261*