

Nassau County Economic Indicators

August 2003



**Office of Legislative Budget Review
Nassau County Legislature**



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Inter-Departmental Memo

To: Hon. Lianne Altmann, Chairperson
Budget Review Committee

From: Eric C. Naughton, ^{ECN} Director
Legislative Budget Review

Date: August 28, 2003

Re: Economic Report

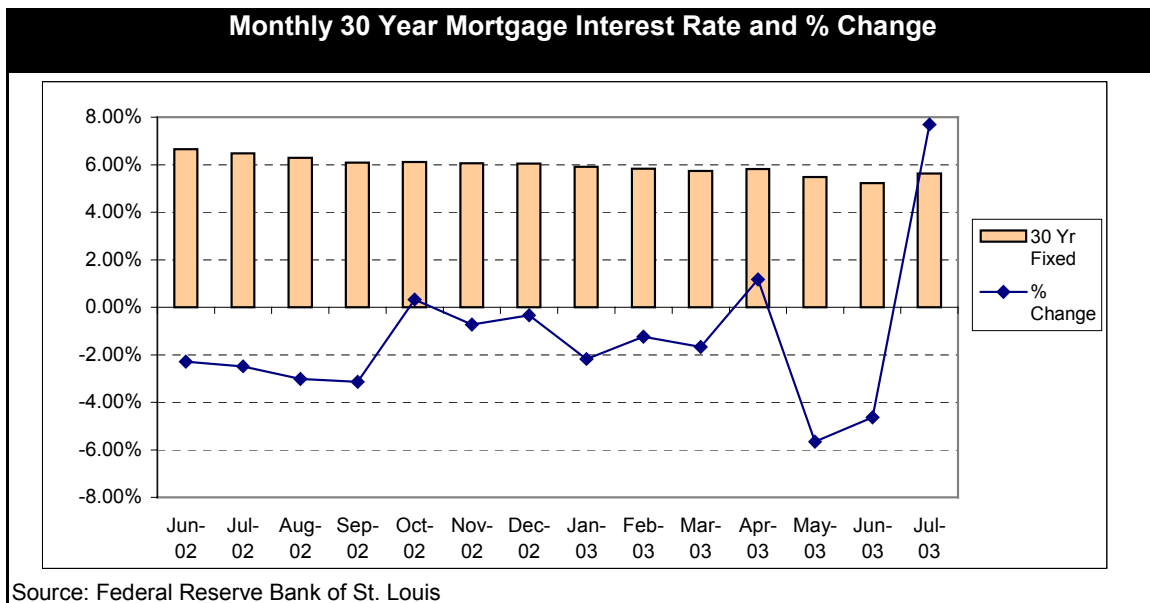
Attached is a copy of the Office of Legislative Budget Review's monthly economic report. The data included is the most current as of the date of issuance. We will not produce a September Economic report because that information will be included in our FY04 Budget report.

cc: Hon. Howard Weitzman, County Comptroller
Sharon Commissiong, Majority Counsel
Mike Deegan, Minority Counsel
Mark Young, Budget Director
Joah Sapphire, Majority Finance
Dan McCloy, Special Assistant to Minority
Rich Luke, NIFA, Executive Director
Art Gianelli, Deputy County Executive
William Geier, Deputy County Executive

August 2003 Economic Indicators Report

This month's economic indicators were positive for the regional economy. Consumer confidence, non-farm jobs, resident employment, hotel/motel occupancies, residential home values and retail sales all increased. However, simultaneously the region had to contend with a sudden and sharp increase in interest rates that threatens to dampen regional economic growth.

This report highlights three significant changes. The first two changes are methodological and are detailed in the Consumer Price Index section. The third is an economic change that could have sizable effects on not only County revenues, but also the local and national economies. The third change is the precipitous increase in mortgage interest rates. This rise is shown and detailed below.



From June 2003 to July 2003, mortgage interest rates rose 7.7%. This represents the greatest monthly interest rate rise of the previous 12 months. According to the Mortgage Bankers Association of America, this increase caused the number of mortgage refinance applications to fall by more than 50% over the last seven weeks.¹ This could directly effect future consumer purchases, since a significant amount of economic activity has been financed through mortgage refinancings. Freddie Mac states that year-to-date, homeowners nationwide have converted about \$50 billion of their home equity into cash.² This money source will dry up as interest rates rise. Additionally, as interest rates rise and individuals have to allocate more income towards debt service, consumers will have less income available for new consumer purchases. County clerk fees, sales tax collections, and OTB profits should similarly fall if fewer mortgages are recorded and consumers have less money available for discretionary spending.

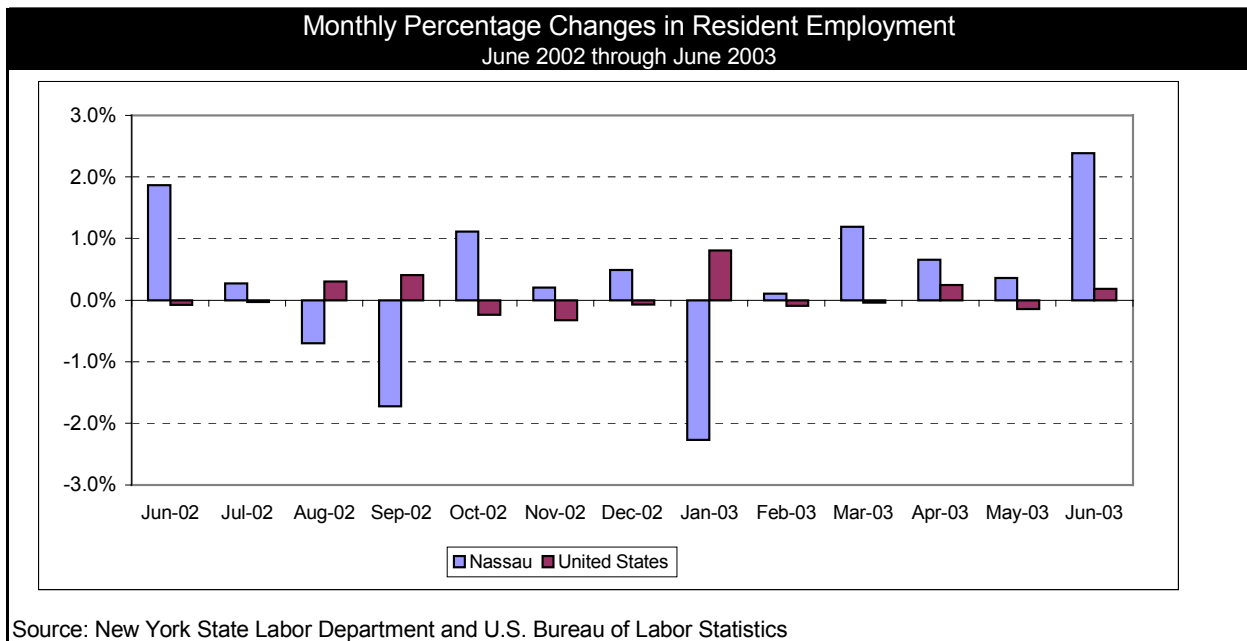
Mitigating the above-mentioned effects locally is the fact that Nassau County has enjoyed five continuous months of positive employment growth. These increases may be seen in the chart below.

¹ Murray, Christian, "Rates and Anxiety Rise, Housing market keeps wary eye as interest rates climb", *Newsday*, August 8, 2003.

² "Share of Refinancers Taking Cash out of Home Equity Plummets to Lowest Level since 1985", *Freddie Mac*, July 30, 2003.

Employment growth is crucial at times when interest rates rise. First, individuals require higher incomes levels to pay increased interest rates. Second, if consumers' spending wanes as business spending jumpstarts, then assuming the two forces offset one another, the economy and County revenues may be unharmed. Indeed several economists have argued that, "when rising rates go hand-in-hand with an economic recovery, as they often do, better job prospects partially offset the effects of higher rates."³

However, while the local area has seen several months of employment gains, the national economy has not. As the chart below shows, in three of the past five months the country experienced an employment loss. Moreover, the national monthly gains have been more modest than those experienced in Nassau. This means that the national economy will be hurt more by the sudden interest rate rise.



³ "Your Home: Worst-case scenario, Will rising interest rates unravel all of the gains of the recent housing boom?", CNN/Money.com, August 7, 2003.

The Regional Economy

Local Area Employment Figures

Comparison of Employment Statistics figures in thousands					
<u>Nassau</u>	<u>6/03</u>	<u>5/03</u>	<u>6/02</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Employed	712.0	695.4	698.0	2.4%	2.0%
Unemployed	29.6	27.1	30.6	9.2%	-3.3%
Unemployment rate	4.0%	3.8%	4.2%	5.3%	-4.8%
<u>Suffolk</u>	<u>6/03</u>	<u>5/03</u>	<u>6/02</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Employed	751.9	734.4	737.2	2.4%	2.0%
Unemployed	32.6	30	33.2	8.7%	-1.8%
Unemployment rate	4.2%	3.9%	4.3%	7.7%	-2.3%
<u>NYC</u>	<u>6/03</u>	<u>5/03</u>	<u>6/02</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Employed	3,381.3	3,366.9	3,468.5	0.4%	-2.5%
Unemployed	282.1	284.4	284.1	-0.8%	-0.7%
Unemployment rate	7.7%	7.8%	7.6%	-1.3%	1.3%
<u>Nation</u>	<u>6/03</u>	<u>5/03</u>	<u>6/02</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Employed	137,738	137,487	136,383	0.2%	1.0%
Unemployed	9,358	8,998	8,469	4.0%	10.5%
Unemployment rate	6.4%	6.1%	5.8%	4.9%	10.3%

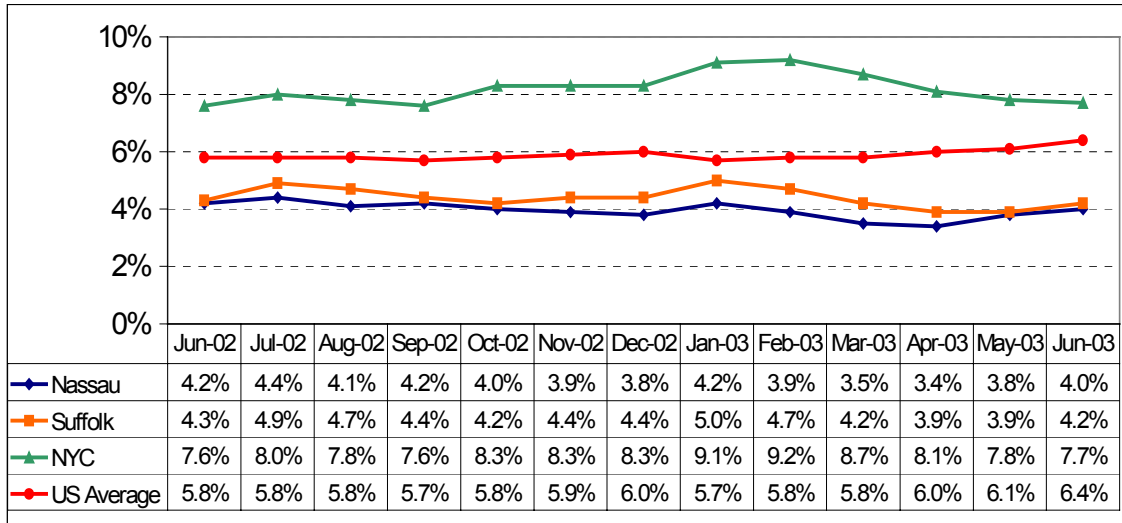
Source: New York State Department of Labor

This month all regions surveyed saw employment growth from a monthly perspective. All areas except New York City saw employment growth from an annual perspective as well.

The brightened employment picture of Long Island and the nation has caused individuals to re-enter the labor force. This month Nassau County's labor force grew by 2.6%. Labor force growth is a sign of a healthy economy.

Lastly, both the number of unemployed individuals and the unemployment rate of Nassau and the nation increased from the previous month. From an annual perspective, the number of unemployed individuals as well as the unemployment rate are down. The chart on the next page details the changes seen in the unemployment over the past twelve months.

Regional Unemployment Rates



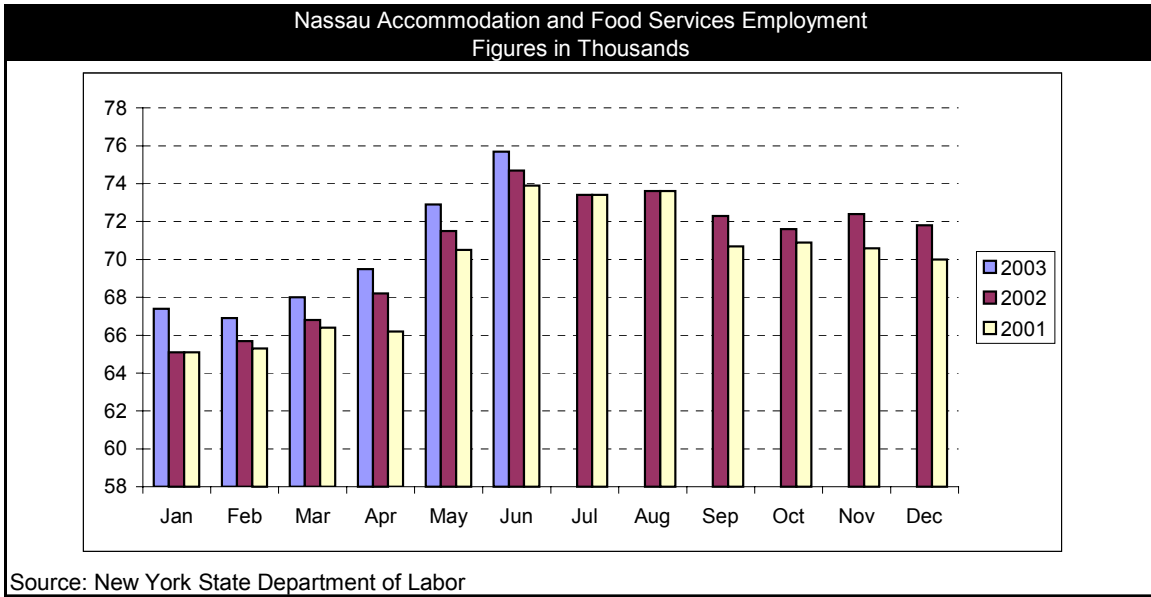
Source: NYS Department of Labor

Nassau-Suffolk Nonagricultural Employment

Nonagricultural Employment Nassau-Suffolk Area figures are in thousands					
	<u>6/03</u>	<u>5/03</u>	<u>6/02</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Natural Resources, Construction & Mining	65.8	65.7	65.5	0.2%	0.5%
Manufacturing	87.5	86.0	92.3	1.7%	-5.2%
Wholesale Trade	71.7	71.7	72.3	0.0%	-0.8%
Retail Trade	161.5	158.7	160.2	1.8%	0.8%
Transportation, Warehousing & Utilities	36.1	36.1	37.5	0.0%	-3.7%
Information	33.5	33.7	32.9	-0.6%	1.8%
Financial Activities	84.6	83.6	83.1	1.2%	1.8%
Professional & Business Services	151.1	151.2	155.6	-0.1%	-2.9%
Educational & Health Services	188.6	189.9	184.3	-0.7%	2.3%
Leisure & Hospitality	101.7	94.9	98.6	7.2%	3.1%
Other Services	51.5	51.5	50.4	0.0%	2.2%
Government	202.0	200.7	199.3	0.6%	1.4%
Total	1,235.6	1,223.7	1,232.0	1.0%	0.3%

Source: NYS Department of Labor

June 2003 marked the fifth month in a row that the Nassau-Suffolk area saw an increase in total non-agricultural employment. The greatest monthly and annual increases were in the Leisure & Hospitality supersector. Within the Leisure & Hospitality supersector, the monthly increase was equally distributed between the Accommodation and Food Services sector and the Food Services and Drinking Places sector. Growth in the Accommodation and Food Service sector is important for the County's hotel/motel tax collections. In theory, the accommodation industry would only add jobs when they are renting out more rooms thereby increasing hotel/motel tax collections. The chart on the next page details the growth spurt seen in Nassau's Accommodation and Food Services sector since 2001. The chart shows that jobs have been added to this sector each month since January 2001. Trailing the Leisure & Hospitality supersector in terms of jobs added from last year are the Educational & Health and Other Services supersectors. The Manufacturing supersector has been the hardest hit from an annual perspective. It has lost 5.2% of its jobs from this time last year.



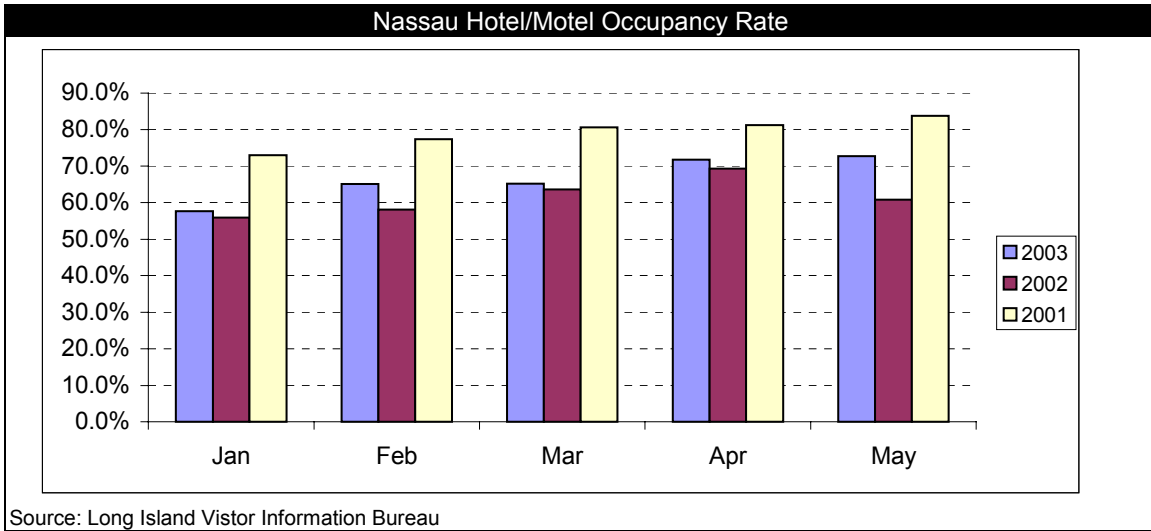
Monthly increases above 1.0% were seen in the Retail Trade, Manufacturing, and Financial Activities supersectors. The Education & Health Services, Information and Professional & Business Services supersectors were the only ones to experience monthly job declines.

Hotel/Motel Occupancy Rate

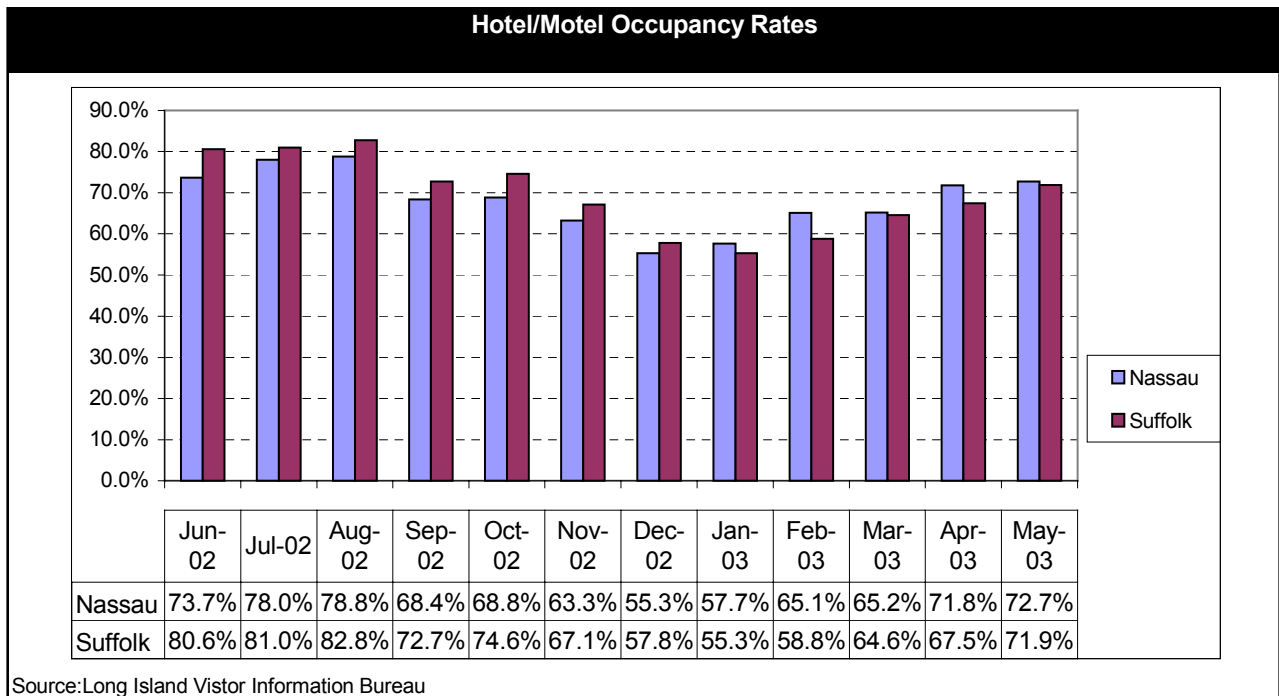
Nassau County Hotel / Motel Occupancy Rate					
	<u>5/03</u>	<u>4/03</u>	<u>5/02</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Occupancy Rate	72.7%	71.8%	60.8%	1.3%	19.6%

Source: Long Island Convention and Visitors Bureau

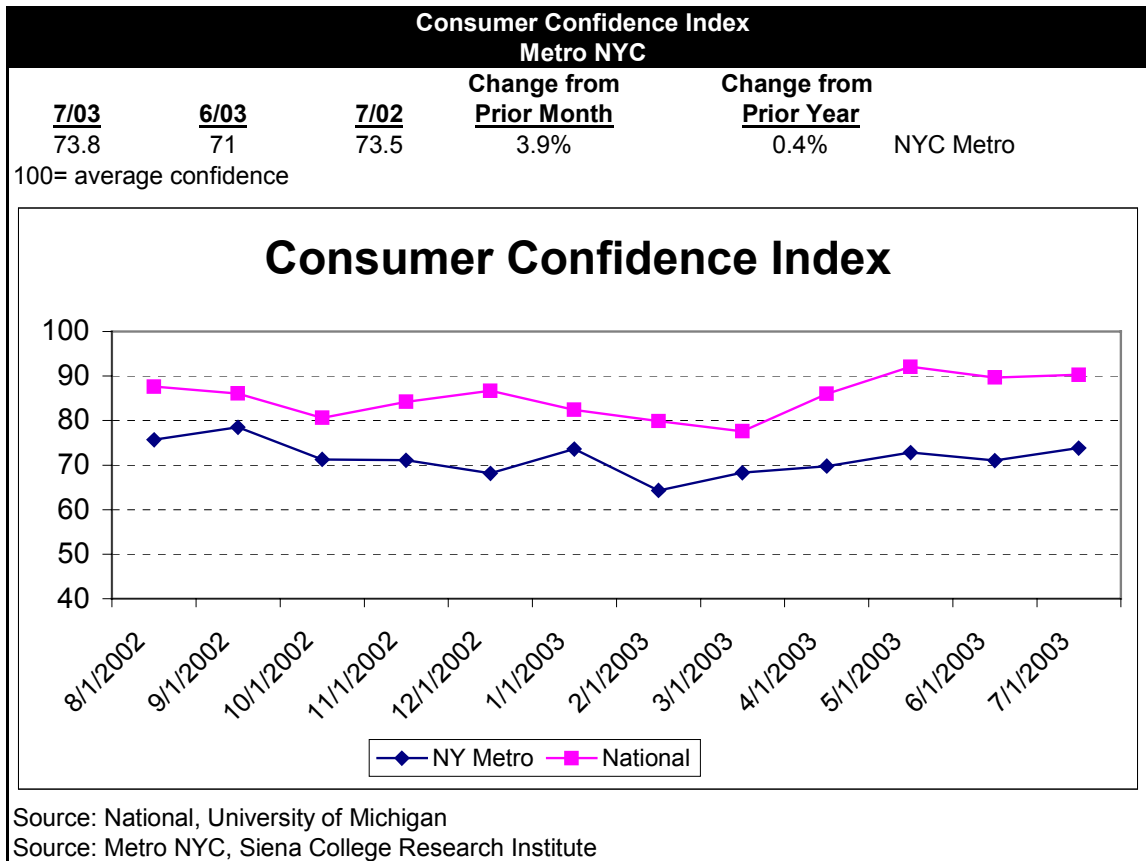
The most recent hotel/motel occupancy rates reveal that Nassau’s hotel/motel industry continues to climb back towards its 2001 levels. Each month this year has recorded an occupancy rate greater than that which was experienced in 2002. The monthly Nassau County occupancy rates for the past three years are charted on the next page. This industry growth spurt was similarly noted above in the discussion of non-farm employment.



Nassau County’s Hotel/Motel industry has seen higher occupancy rates than Suffolk County in 2003. As the chart below depicts, this is in contrast to what was experienced during the second half of 2002. This growth is good for the County’s hotel/motel tax collections as well as its sales tax collections.



Consumer Confidence Index



July 2003’s regional consumer confidence was up from both a monthly and yearly perspective. Contributing to the increased regional consumer confidence is the positive employment growth described previously. However, regional consumer confidence remains below the nation’s confidence level.

Heightened consumer confidence resulted in increased July retail sales. Wal-Mart, Best Buy, AnnTaylor, and Abercrombie & Fitch all raised their quarterly earning forecasts as a result of better than expected July retail sales.⁴

Consumer Price Indexes

The recently approved CSEA contract ties future wage increases to the All Urban Consumers Index (CPI-U). This measure was chosen to ensure that wages increase in tandem with regional inflation. Thus, the indices listed in the Consumer Price Index section of this report now reflect the CPI-U. Moreover, a new “Core” index is being introduced into the report to provide a more accurate estimate of true regional inflation. This is because typical CPI indices are seen as being slightly biased measures of inflation.

Previous reports had listed the Urban Wage Earners and Clerical Worker Index or CPI-W. The CPI-W may be seen as a subset of the CPI-U. The CPI-U represents the expenditures of almost all residents of urban or metropolitan areas. It excludes the expenditures made by individuals living in rural non-

⁴ Kaiser, Emily, “Weather Boosts Retail Sales, Profit Hopes”, Washingtonpost.com, August 7, 2003.

metropolitan areas, farm families, persons in the armed forces, and those living in institutions. The CPI-W similarly represents the expenditures of almost all residents of urban or metropolitan areas, but adds on two additional requirements. First, individuals counted in the CPI-W must have more than one-half of the household's income come from clerical or wage occupations. Secondly, those counted in the CPI-W must have had at least one wage earner employed for at least 37 weeks during the previous 12 months. Both indices compute average spending amounts using fixed market baskets of goods.

There are two sources of bias inherent in CPI measures. These biases occur due to the fact that all CPI measures are computed using averages and fixed market baskets. Since all CPI measures are calculated as means instead of medians, they are sensitive to large monthly price changes. Very often such short-term volatile price changes indicate a short-run supply problem rather than a long-run change in the growth rate of the overall price level. It is the long-run growth rate of the overall price level that the index is seeking to measure.⁵ Additionally, since the goods included in the market basket are fixed, the indices do not allow for substitution possibilities. Therefore, as new lower priced discount outlets open or new and improved products hit the market, the CPI will not capture these lower priced alternatives available to consumers.⁶

Due to these inherent biases, many economists utilize core CPI values. Many attempts are being made to calculate a more accurate CPI index. Academic economists have begun to calculate “median CPI values” as well as “trimmed mean CPI values”. To date, the only core CPI values available on a monthly basis are those measured by the U.S. Bureau of Labor Statistics which take the ordinary All-Items measure and subtract the most volatile sectors. According to the U.S. Bureau of Labor Statistics, the core CPI index of all items less energy, is a more powerful predictor of future inflation.⁷ This index is thought to convey a more accurate picture of long-term regional price growth. However, it still does not allow for substitution amongst goods and thus may slightly overestimate true inflation.

Consumer Price Indexes New York-Northern Jersey-Long Island, NY-NJ-CT-PA region					
	<u>7/03</u>	<u>6/03</u>	<u>7/02</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
US City, CPI-U	183.9	183.7	180.1	0.1%	2.1%
Regional CPI-U	197.7	196.9	192.0	0.4%	3.0%
Core CPI-U (All Items less energy)	205.4	204.5	200.2	0.4%	2.6%
Medical	310.7	308.4	301.4	0.7%	3.1%
Housing	208.8	207.9	200.8	0.4%	4.0%
Gasoline (all types)	118.3	119.4	110.1	-0.9%	7.4%

Source: Bureau of Labor Statistics

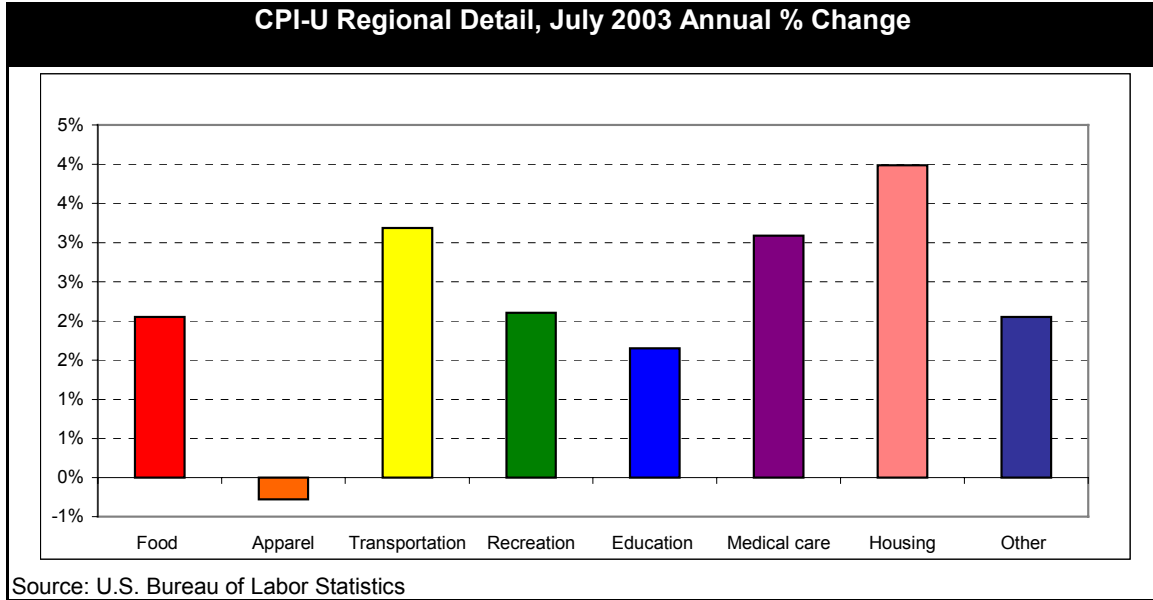
Prices throughout the nation are up slightly from last month and 2.1% from this time last year. Regionally, prices have been appreciating at a higher rate, 0.4% from last month and 3.0% from last

⁵ Motley, Brian, “Should Monetary Policy Focus on “Core” Inflation?” Federal Reserve Bank of San Francisco Economic Letter, April 18, 1997.

⁶ Rogoff, Kenneth, “Deflation: Determinants, Risks, and Policy Options – Findings of an Interdepartmental Task Force”, International Monetary Fund, April 30, 2003.

⁷ “Measuring “Core” Inflation”, Monthly Labor Review Online, July 2001.

year. Excluding the energy sector, prices similarly have risen 0.4% from last month, but only 2.6% from last year. The price of gasoline is the only one to experience a monthly decline. Yet, July's decline will be short lived since August 2003 witnessed a pipeline burst in Phoenix and a blackout in the Northeast. These two events drastically cut supply leading to the largest two-week rise in the fifty year history of the Lundberg Survey of gasoline prices. Looking beyond August 2003, prices are expected to decrease as the supply problems should cease.⁸



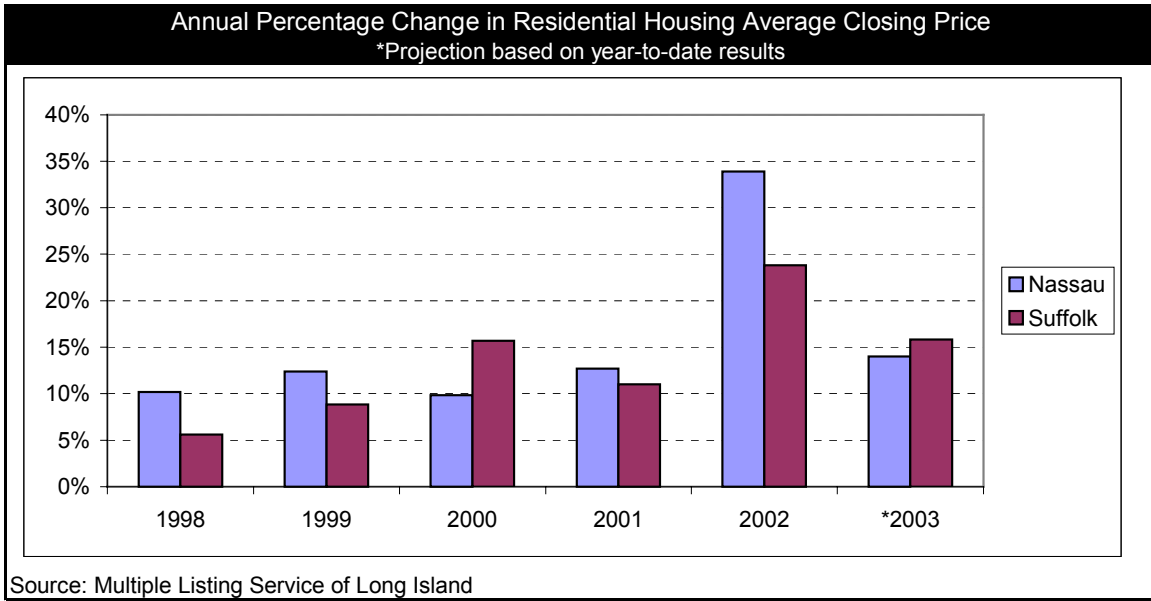
From an annual perspective, most prices are up more than 2.0%. The apparel industry is the only exception, with prices falling 0.3% from last year. However, the July monthly apparel price decline is the smallest decline which the industry has experienced this year. This is a positive sign for County sales tax revenues, since prices and tax collections move in tandem assuming the price increase does not necessitate a quantity adjustment.

Residential Housing Market

This month's Multiple Listing Service of Long Island (MLSIL) data reveals strengthening in Nassau County's residential property market. Encouragement was seen in the rate of appreciation of average home sale prices as well as a decrease in the rate of decline in the number of closed transactions. However, residential inventories continue to escalate. Additionally, the sharp rise in mortgage interest rates described above may put downward pressure on the residential housing market.

The projected annual average sale price based on June 2003 home sale price data rose to \$490,199, from last month's \$489,028. This projected annual average represents a 14.0% appreciation from 2002's level. On a monthly basis, June 2003's average closing price was \$472,312, 14.2% greater than June 2002's level. Suffolk County is still projected to end the year with greater home price appreciation than Nassau, however, the spread between the two appreciation rates fell 0.6% from last month. The chart on the next page details the projected annual appreciation rates for both Nassau and Suffolk County.

⁸ "Gas Prices Zoom at Record Pace", CNN/Money.com, August 24, 2003.



The recent decline seen in the number of real estate transactions closed has begun to ebb. The year-to-date number of real estate transactions closed in Nassau County is down 0.5% from this time last year. That is down from last months decrease of 3.89%. Suffolk County continues to record increases in the year-to-date number of transactions closed. Suffolk's June 2003 number of closed real estate transactions was up 2.68% from this time last year.

Residential inventory levels in both Nassau and Suffolk Counties continue to rise. This month's Nassau County residential inventory level is up 46.7% from this time last year. Similarly, in Suffolk County, residential inventory levels have increased 46.7% from last year. Inventory levels continue to represent seven-year highs.

Conclusion

This month was positive for the regional economy. As long as the increases seen in jobs and consumer confidence continue the economy should continue to grow. However, the sudden change in mortgage interest rates should be monitored as the recent escalation has the potential to thwart regional economic growth.