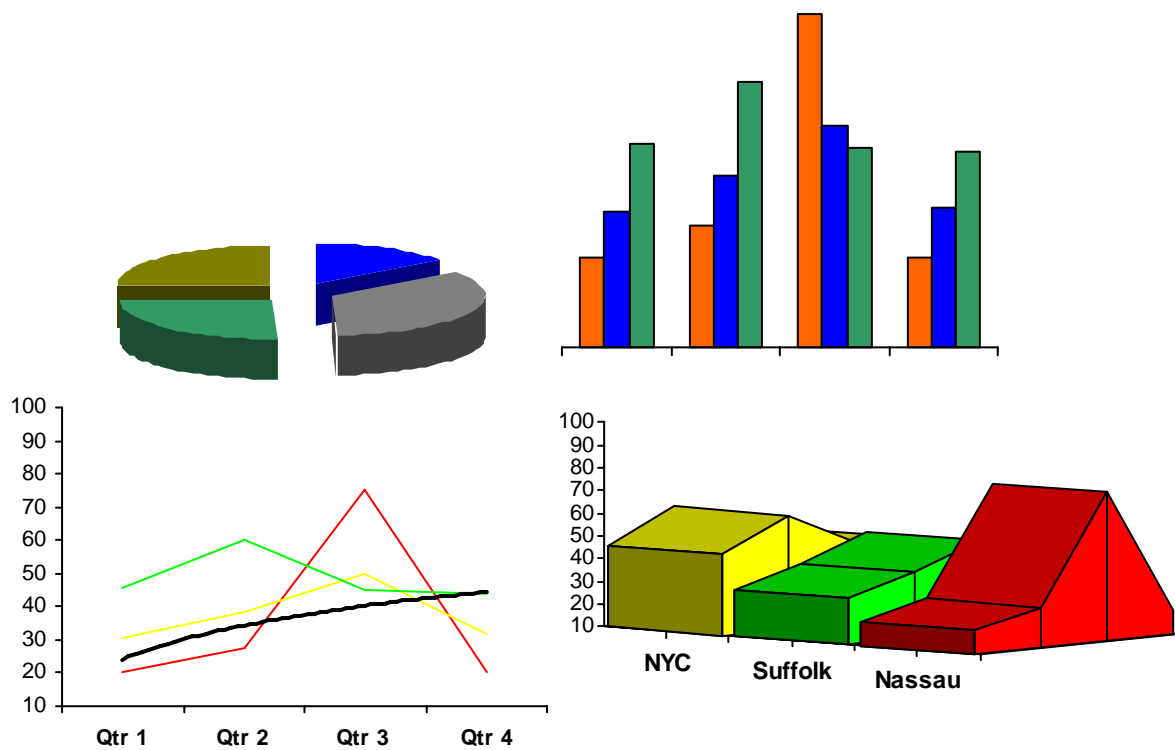




# NASSAU COUNTY LEGISLATURE

## Office of Legislative Budget Review

### Nassau County Economic Indicators



August 2005



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BUDGET REVIEW

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**Inter-Departmental Memo**

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

From: Eric C. Naughton, Director  
Legislative Budget Review

Date: September 13, 2005

Re: August 2005 Economic Report

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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  
Ed Ward, Special Assistant to Minority  
Art Gianelli, Deputy County Executive  
Phil Ragusa, Deputy Majority Finance  
Carol Trottere, Majority Press Secretary  
Marilyn Gottlieb, Director of Legislative Affairs  
Bill Geier, Clerk of the Legislature  
Fran Evans, Director of Policy

## August 2005 Monthly Economic Indicators Report

Our regional and national economies seem to be in a precarious position. Resident employment figures and hotel/motel occupancy rates were strong. However, high gas and consumer prices, a decrease in annual consumer confidence and a monthly decline in regional job growth do not make the future look promising. In addition it seems that national 2005 GDP growth may fall short of the projected 3.7% annual growth rate due to the following:

1. the Federal Reserve raised interest rates for the 10<sup>th</sup> consecutive time on August 9<sup>th</sup>;<sup>1</sup>
2. consumer debt loads are double what they were 10 years ago;<sup>2</sup>
3. the U.S. experienced a category 5 hurricane.

### Consumer Price Indexes

<b>Consumer Price Indexes</b>					
<b>New York-Northern Jersey-Long Island, NY-NJ-CT-PA region</b>					
	<u>7/05</u>	<u>6/05</u>	<u>7/04</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
US City, CPI-U	195.4	194.5	189.4	0.5%	3.2%
Regional CPI-U	212.5	210.7	205.5	0.9%	3.4%
Core CPI-U (All Items less energy)	217.4	216.3	211.8	0.5%	2.6%
Medical	327.7	327.4	319.9	0.1%	2.4%
Housing	227.2	224.9	218.5	1.0%	4.0%
Gasoline (all types)	183.9	169.9	158.6	8.2%	16.0%

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

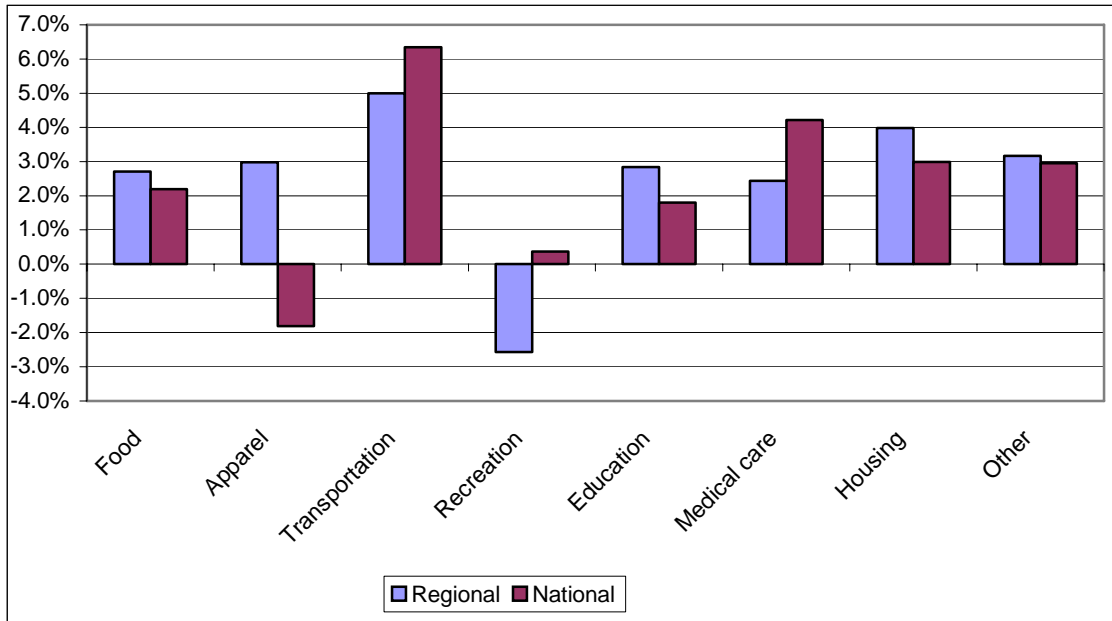
In July 2005, national and regional consumer prices rose from both a monthly and an annual perspective. From a regional perspective, the greatest consumer price appreciation was recorded in the gasoline (all types) index. At a national level, the price of gasoline escalated 19.5% from July 2004. At a regional level, the price of gasoline increased 16.0% from this time last year. According to the U.S. Bureau of Labor Statistics, the current regional price of gasoline is at its highest level since the Bureau began tracking it in 1977.<sup>3</sup> Regional consumer inflation outpaced that seen throughout the nation, from both a monthly and an annual perspective. The chart on the next page shows that food, apparel, education, housing and other prices propelled the regional index ahead of the national index.

<sup>1</sup> Aversa, Jeannine, "Fed Hikes Interest Rates for 10<sup>th</sup> Consecutive Time", [TheJournalNews.com](http://TheJournalNews.com), August 10, 2005.

<sup>2</sup> Alt Powell, Eileen, "Debt Load Makes America Vulnerable to Rising Rates, Foreign Currency Imbalances", [TheJournalNews.com](http://TheJournalNews.com), August 29, 2005.

<sup>3</sup> Kohli, Martin, and Michael L. Dolfman, "New York-Northern New Jersey CPI Rises 0.9 Percent in July; Up 3.4 Percent over the Year", [U.S. Bureau of Labor Statistics](http://U.S. Bureau of Labor Statistics), August 16, 2005.

## CPI-U Regional vs. National Annual Percentage Changes July 2005



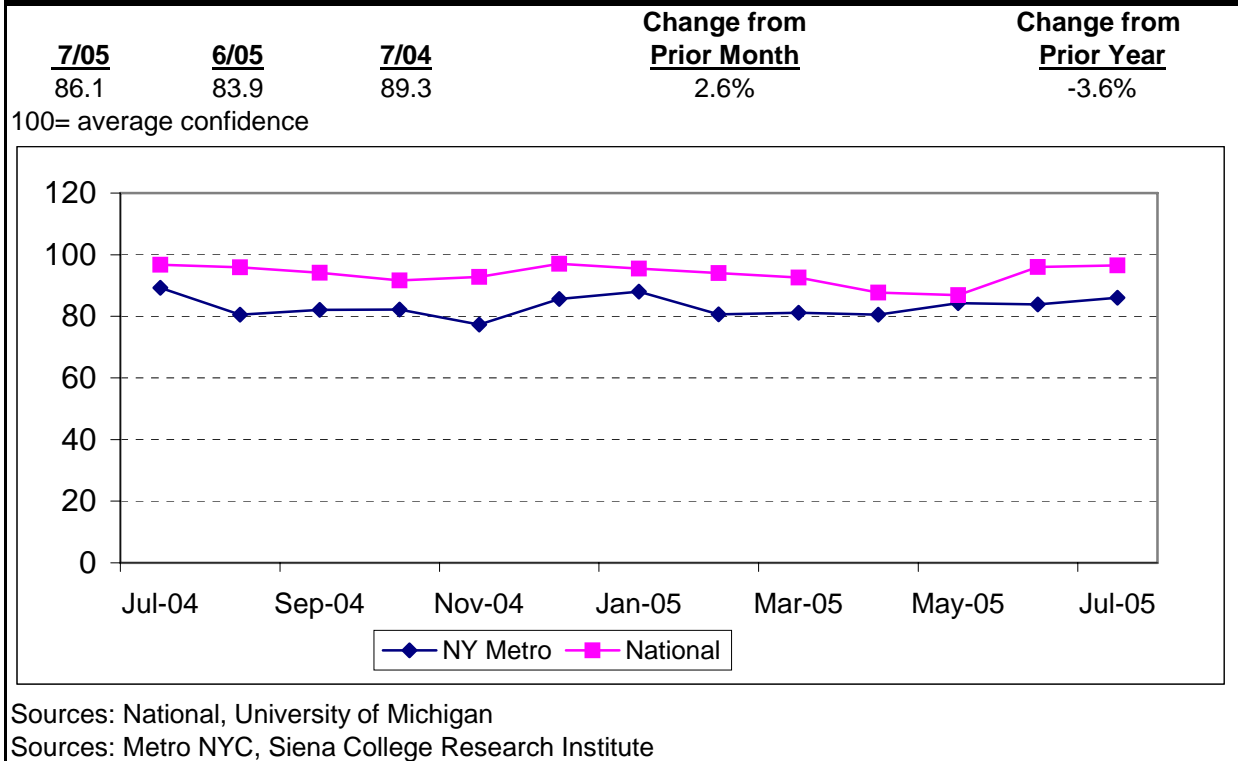
Source: U.S. Bureau of Labor Statistics

The chart above details the annual changes seen in the consumer price indices both nationally and regionally. Nationally, Apparel prices were the only sector to record a decrease. Regionally, the Recreation sector was the only one to see an annual decline.

### Consumer Confidence Index

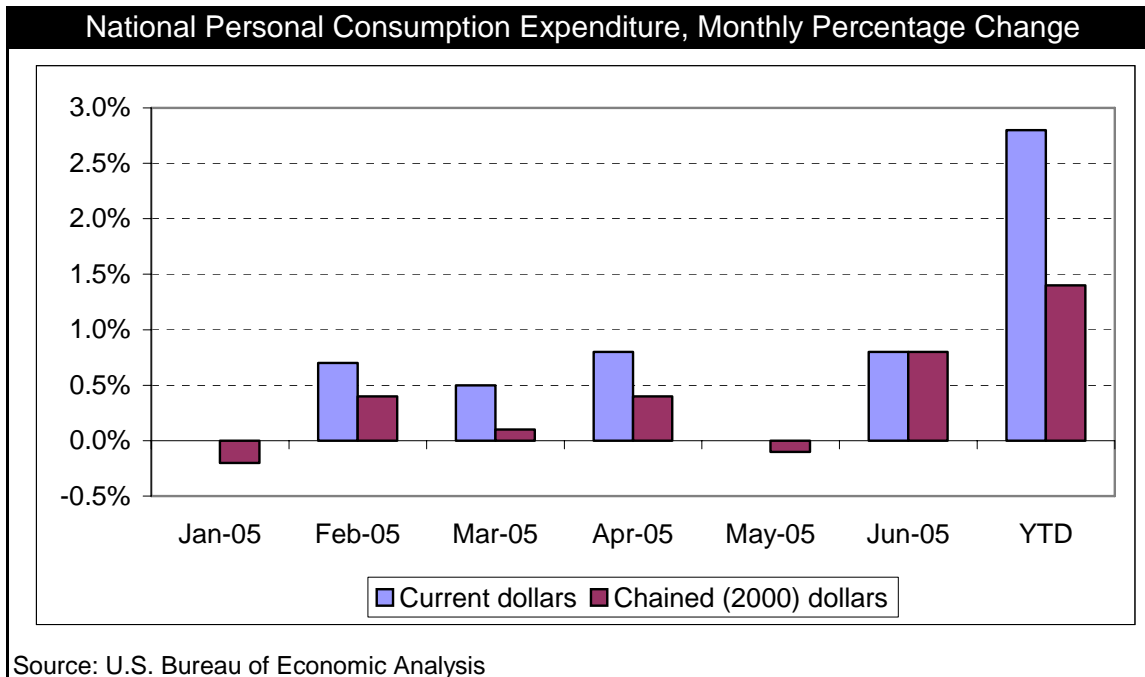
In July 2005, regional consumer confidence rose 2.6% from the prior month, but was down 3.6% from the previous year. Similar trends were seen nationally where consumer confidence was up from a monthly perspective, yet down from an annual perspective. The chart on the next page details the monthly changes seen in the regional and national consumer confidence indices.

## Consumer Confidence Index Metro NYC



Coinciding with the heightened monthly consumer confidence, July 2005 national retail sales rose 1.8% from the prior month. Much of the increase was attributed to auto sales which increased 6.7% from the prior month.<sup>4</sup> Viewing recent consumer spending from both a real and a nominal perspective enables one to see that individuals not only are paying more, but are also purchasing more items. The June 2005 personal consumption expenditure figures reveal that nationwide consumers have increased their spending in both real and nominal terms. The chart on the next page illustrates the monthly percentage change in consumer spending from both a nominal current dollar basis and a real chained dollar basis. From the fiscal position of the County, the below figures reveal that approximately 50% of the increase seen in County sales tax collections may be attributed to an increase in prices and 50% may be attributed to individuals making more purchases.

<sup>4</sup> Crutsinger, Martin, "July Retail Sales Climb on Auto Purchases", [1010Wins.com](http://1010Wins.com), August 11, 2005.



Individuals are relying on increases in income and home values to finance their purchases. According to the U.S. Bureau of Economic Analysis, national incomes grew 0.5% in June 2005 from a monthly perspective.<sup>5</sup> Looking forward, analysts are projecting average national pay increases in 2005 and 2006 to be 3.6%. In addition to receiving pay increases, analysts have found that more employers are supplementing salaries with cash awards, signing bonuses and other incentives which do not permanently boost pay scales.<sup>6</sup> The previous figures show that individuals are spending more than their income. Indeed, the Commerce Department found that the U.S. personal savings rate fell to 0% in June 2005. That was the second time since the Great Depression that Americans have spent as much as they earned in a month. Growth in home equity has made the spending increase possible. According to Freddie Mac data, U.S. homeowners cashed out \$59 billion in the second quarter by refinancing to a larger mortgage loan. Additionally, U.S. homeowners have been borrowing roughly \$50 billion a quarter from home equity loans.<sup>7</sup>

In the future, unless income growth picks up, current spending rates will not be sustainable in an environment of rising interest rates. On August 9, 2005, the Federal Reserve raised the federal funds rate to 3.5%. At that time the Federal Reserve pledged to continue to raise rates at a measured pace. Analysts expect interest rates to rise a quarter percent at the next three meetings of the Federal Reserve. This would put the year end federal funds rate at 4.25%.<sup>8</sup> Higher interest rates will make existing home debt more expensive and slow down home price appreciation. Both of those forces would result in decreased future consumer spending unless personal income grows in tandem with interest rates.

<sup>5</sup> Aversa, Jeanine, "Consumer Spending is Strong in June", [1010Wins.com](http://1010Wins.com), August 2, 2005.

<sup>6</sup> "Pay Freezes May Be Melting", [CNN/Money.com](http://CNN/Money.com), August 2, 2005.

<sup>7</sup> Nutting, Rex, "Our Homes are Our Piggy Banks", [MarketWatch.com](http://MarketWatch.com), August 2, 2005.

<sup>8</sup> "Fed Raises Interest Rate a Quarter-Point", [Newsday.com](http://Newsday.com), August 9, 2005.

## Local Area Employment Figures

July 2005 recorded strong employment gains. All areas surveyed witnessed an increase in employed residents from both a monthly and an annual perspective. From an annual perspective, all areas surveyed saw a decline in both their unemployment rate and the number of unemployed residents. In contrast, from a monthly perspective all areas surveyed within the metropolitan area recorded an increase in both their unemployment rate and the number of unemployed residents. These monthly gains are considered a sign of a healthy economy since individuals are being drawn back into the work force due to greater job opportunities. Unfortunately, the pace of job creation has not kept up with the pace at which individuals are re-entering the labor force. All areas surveyed experienced both a monthly and an annual increase in their labor force.

<b>Comparison of Employment Statistics</b> (figures in thousands)					
<b><u>Nassau</u></b>	<b><u>7/05</u></b>	<b><u>6/05</u></b>	<b><u>7/04</u></b>	<b><u>Change from</u></b>	<b><u>Change from</u></b>
<b>Employed</b>	682.7	677.8	674.8	<b>Prior Month</b>	<b>Prior Year</b>
				0.7%	1.2%
<b>Unemployed</b>	31	29.2	32.4	6.2%	-4.3%
<b>Unemployment rate</b>	4.3%	4.1%	4.6%	4.9%	-6.5%
<b><u>Suffolk</u></b>	<b><u>7/05</u></b>	<b><u>6/05</u></b>	<b><u>7/04</u></b>	<b><u>Change from</u></b>	<b><u>Change from</u></b>
<b>Employed</b>	761.3	755.8	752.5	<b>Prior Month</b>	<b>Prior Year</b>
				0.7%	1.2%
<b>Unemployed</b>	36.7	31.9	37.4	15.0%	-1.9%
<b>Unemployment rate</b>	4.6%	4.1%	4.7%	12.2%	-2.1%
<b><u>NYC</u></b>	<b><u>7/05</u></b>	<b><u>6/05</u></b>	<b><u>7/04</u></b>	<b><u>Change from</u></b>	<b><u>Change from</u></b>
<b>Employed</b>	3,541.8	3,501.6	3,486.0	<b>Prior Month</b>	<b>Prior Year</b>
				1.1%	1.6%
<b>Unemployed</b>	224.6	196.0	278.3	14.6%	-19.3%
<b>Unemployment rate</b>	6.0%	5.3%	7.4%	13.2%	-18.9%
<b><u>Nation</u></b>	<b><u>7/05</u></b>	<b><u>6/05</u></b>	<b><u>7/04</u></b>	<b><u>Change from</u></b>	<b><u>Change from</u></b>
<b>Employed</b>	143,283.0	142,456.0	140,700.0	<b>Prior Month</b>	<b>Prior Year</b>
				0.6%	1.8%
<b>Unemployed</b>	7,839.0	7,870.0	8,518.0	-0.4%	-8.0%
<b>Unemployment rate</b>	5.2%	5.2%	5.7%	0.0%	-8.8%

Source: New York State Department of Labor and US Bureau of Labor Statistics

## Nassau-Suffolk Non-agricultural Employment

<b>Non-agricultural Employment Nassau-Suffolk Area (figures in thousands)</b>					
	<u>7/05</u>	<u>6/05</u>	<u>7/04</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Natural Resources, Construction & Mining	68.7	68.6	67.8	0.1%	1.3%
Manufacturing	87.1	88.7	86.9	-1.8%	0.2%
Wholesale Trade	72.7	72.7	72.8	0.0%	-0.1%
Retail Trade	162.4	164.0	161.8	-1.0%	0.4%
Transportation, Warehousing & Utilities	35.4	38.3	34.7	-7.6%	2.0%
Information	28.9	29.0	29.0	-0.3%	-0.3%
Financial Activities	85.0	84.7	84.5	0.4%	0.6%
Professional & Business Services	161.4	162.2	157.2	-0.5%	2.7%
Educational & Health Services	196.6	198.5	193.5	-1.0%	1.6%
Leisure & Hospitality	110.9	107.6	108.4	3.1%	2.3%
Other Services	51.7	52.0	51.3	-0.6%	0.8%
Government	187.8	202.0	187.9	-7.0%	-0.1%
<b>Total</b>	<b><u>1,248.6</u></b>	<b><u>1,268.3</u></b>	<b><u>1,235.8</u></b>	<b><u>-1.6%</u></b>	<b><u>1.0%</u></b>
Source: NYS Department of Labor					

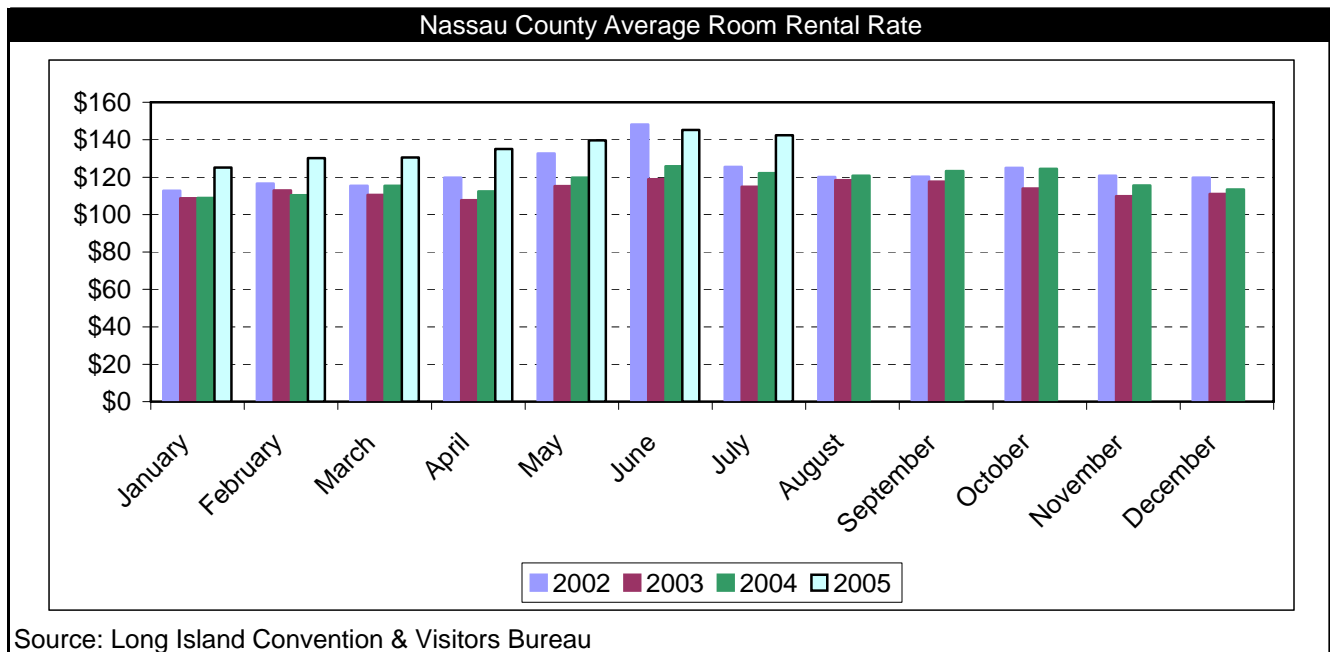
As mentioned previously, the rate of job creation did not keep pace with the rate at which individuals are entering the labor market. This is shown directly in the 1.6% monthly decline in jobs on Long Island. The monthly declines were widespread with 8 of the 12 sectors surveyed recording decreases. The Transportation, Warehousing & Utilities and Government sectors bore the brunt of the job declines. The sharp increases in the price of crude oil may be responsible for much of the job declines seen in the Transportation, Warehousing & Utilities sector. Much of the decline in the Government sector is seasonal since school is out during July.

From an annual perspective, total new job growth exceeded the 1% mark indicative of a healthy economy. The annual job gains were widespread with 9 of the 12 sectors showing an annual increase. The greatest annual increase was in the Professional & Business Services sector.



## The Lodging Industry

July 2005 was a strong month for the tourism industry on Long Island. As the previous section depicted, the Leisure & Hospitality sector witnessed the greatest monthly job growth of all sectors surveyed. Hotel/motel occupancy rates in Nassau County declined from a monthly viewpoint, but were up from an annual perspective. Moreover, strong demand has enabled hotels and motels to raise their average room rental rates.



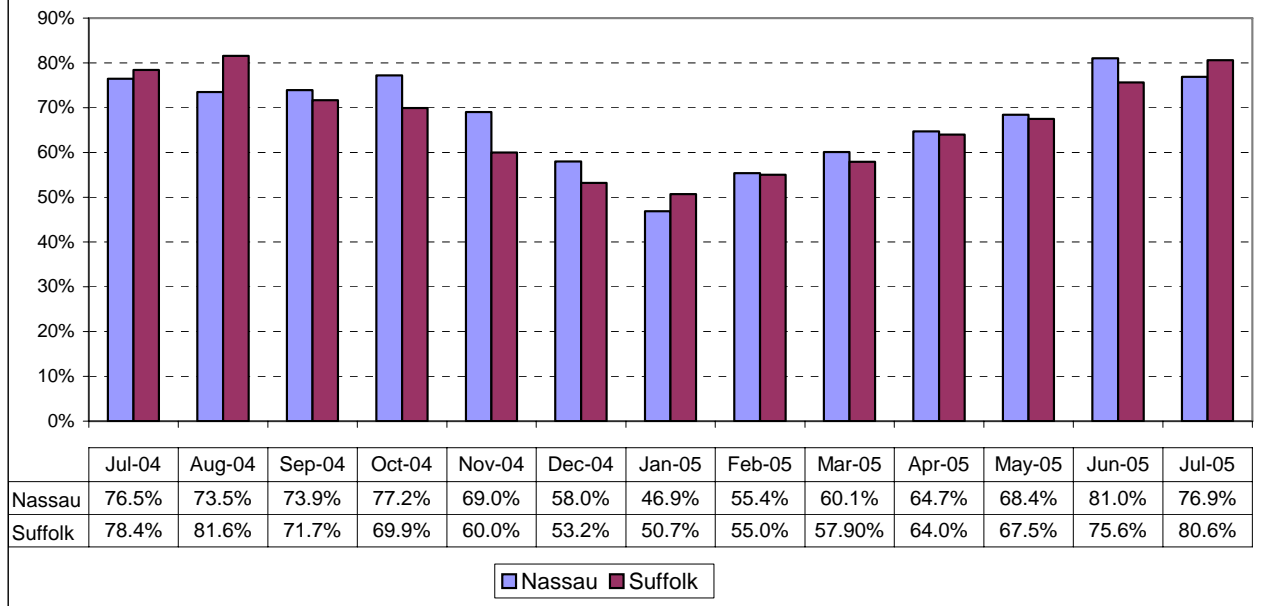
The above chart details average room rental rates in Nassau by month over the previous four years. Nassau County's average room rental rate in July 2005 was \$142.46, a four-year high.

<b>Nassau County Hotel / Motel Occupancy Rate</b>					
	<u>7/05</u>	<u>6/05</u>	<u>7/04</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Occupancy Rate	76.9%	81.0%	76.5%	-5.1%	0.5%

Source: Long Island Convention and Visitors Bureau

The chart above details hotel/motel occupancy rates in Nassau County from a monthly and an annual perspective. The chart on the next page records Nassau and Suffolk County occupancy rates by month over the past year. In Nassau, occupancy rates declined from a monthly perspective and increased from an annual perspective. In Suffolk, occupancy rates rose from both a monthly and an annual vantage point. Annual increases in occupancy rates reveal robust tourism demand since several new hotels and motels have been built over this time period and since average room rental rates have risen.

## Hotel/Motel Occupancy Rates



Source: Long Island Visitor Information Bureau

### **Conclusion**

Future strong annual GDP growth difficult will be difficult. The Long Island regional economy took a step backwards in July in terms of monthly job growth. Additionally, high gasoline prices, decreased annual consumer confidence and higher interest rates will curtail future consumer spending. Thankfully, the physical damage done to U.S. refining capacity by Hurricane Katrina turned out to be less than anticipated; so there should be no long-term impact to the our national economy. According to the Congressional Budget Office, the adverse impacts from Katrina should be concentrated in the second half of 2005 and economic activity could receive a boost next year from rebuilding.<sup>9</sup>

<sup>9</sup> Crutsinger, Martin, "Congressional Budget Office Predicts Increased Joblessness", [TheJournalNews.com](http://TheJournalNews.com), September 8, 2005.