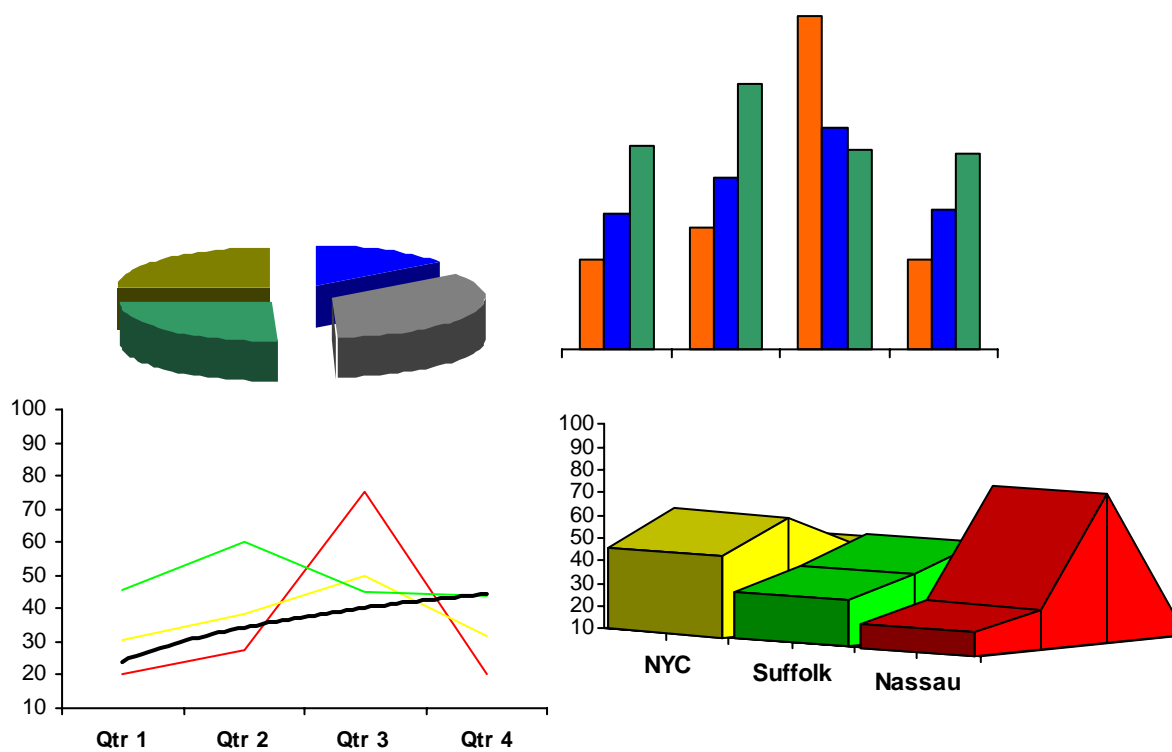




NASSAU COUNTY LEGISLATURE

Office of Legislative Budget Review

Nassau County Economic Indicators



January 2005



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OFFICE OF LEGISLATIVE
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: February 2, 2005

Re: January 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

January 2005 Monthly Economic Report

On February 2, 2005, the Federal Reserve raised the federal funds rate to 2.50%.¹ This 0.25% increase followed a 0.25% increase in December 2004. It felt that the economy was on secure enough footing to withstand a 25 basis point increase in the federal funds rate.² Strong economic activity was similarly noted in the upward revision of third quarter national GDP to 4.0%.³ Regionally economic growth was seen in resident employment, non-farm jobs, and average residential sale prices. Concerns were raised with regard to the quality of the new job growth as well as the sustainability of current housing growth rates. More data is required to ascertain the impact of higher interest rates and if the previously mentioned growth rates are sustainable.

Consumer Price Indexes

Consumer Price Indexes					
New York-Northern Jersey-Long Island, NY-NJ-CT-PA region					
	<u>12/04</u>	<u>11/04</u>	<u>12/03</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
US City, CPI-U	190.3	191.0	184.3	-0.4%	3.3%
Regional CPI-U	206.8	207.2	199.3	-0.2%	3.8%
Core CPI-U (All Items less energy)	213.6	213.8	207.1	-0.1%	3.1%
Medical	322.2	320.8	313.0	0.4%	2.9%
Housing	218.4	218.4	209.8	0.0%	4.1%
Gasoline (all types)	154.2	158.7	125.8	-2.8%	22.6%

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

In December 2004, energy price declines contributed to a decrease in the overall price level. The monthly decrease in consumer prices occurred both throughout the region and nationally.

In spite of the monthly decline, consumer prices ended the year up 3.3% nationally and 3.8% regionally. The 3.8% annual regional increase was the greatest increase seen since 1990.⁴ The prime mover behind the sharp price increase was the 22.6% increase in the price of gasoline. Nationally, gasoline prices rose 26% in 2004. Increased world oil demand, greater terrorism fears, limited storage area, just-in-time inventory management and tight refining capacity are all contributing to the increase in the price of gasoline.⁵ These factors have also contributed to increased heating oil prices on Long Island. To date the cost of heating oil on Long Island is up 20% from 2003's level.⁶ These conditions are expected to continue in the near future. Analysts are expecting total U.S. refining capacity to grow by 0.5% from 2004 through 2006. Simultaneously, U.S. demand for gas and other refined products is expect to grow by 1% to 1.5% each year.⁷

¹ "Fed Boosts Rates a Quarter Point", CNN/Money.com, February 2, 2005.

² "FOMC State and Board Discount Rate Action", FederalReserve.gov, December 14, 2004.

³ Aversa, Jeannine, "Economy Grows Faster than Thought in 3Q", 1010Wins.com, December 22, 2004.

⁴ Marshall, Randi F., "Inflation on the Rise", Newsday, January 20, 2005.

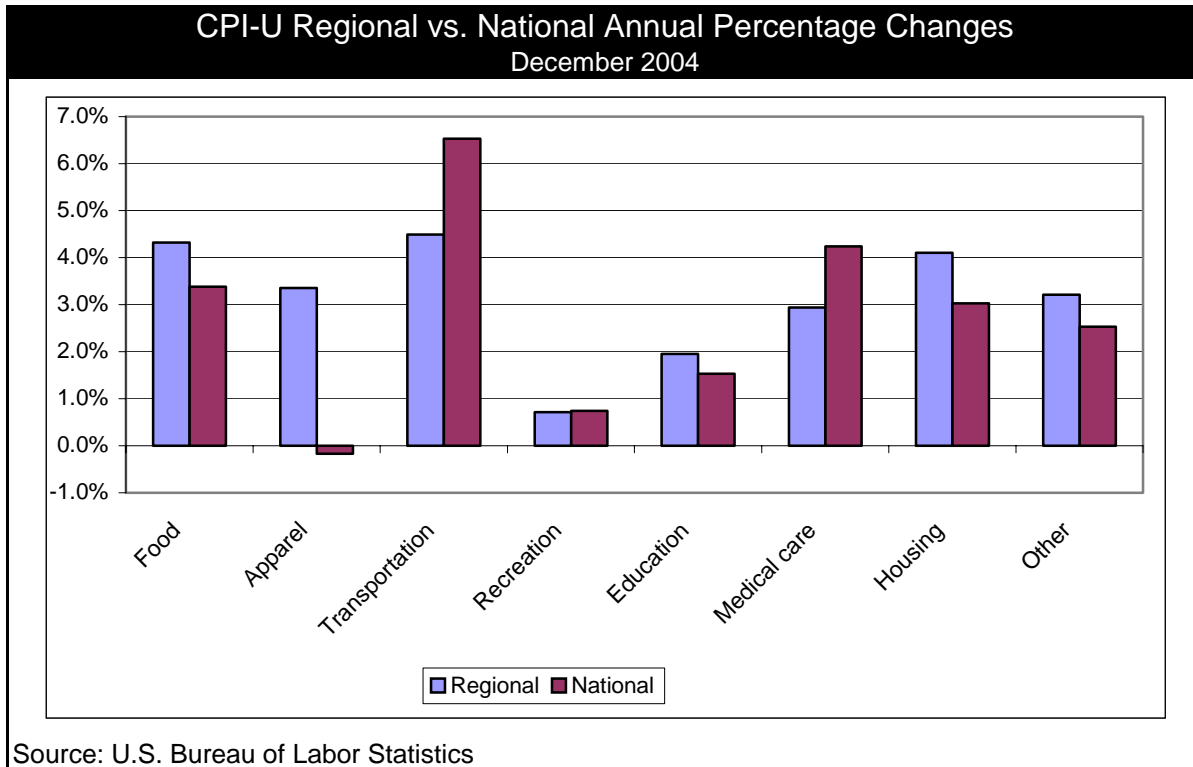
⁵ Herrick, Thaddeus, "Gasoline-Price Spikes Linked to Refiner's Lower Inventories", The Wall Street Journal, December 20, 2004.

⁶ Joshi, Pradnya, "In Big Chill, Oil Prices Heat Up", Newsday, January 20, 2005.

⁷ Zellner, Wendy, "Crude Lessons About Oil", Business Week, November 15, 2004.

Excluding the increase in energy prices, core prices on Long Island increased 3.1% from the prior year. The chart below details the annual price increases seen regionally and nationally by sector. The greatest increase was seen in the transportation sector. The cost of gasoline is included in this sector. The second greatest annual regional price appreciation was recorded in the food and beverage sector.

Through November 2004, the Bureau of Economic Analysis figures show that the previously mentioned consumer price increases are responsible for 50% of the increase seen in national personal consumption expenditures. This national break-out roughly approximates the growth in County sales tax collections which may be attributed to greater regional prices as opposed to an increase in sales.



Consumer Confidence Index

The chart on the following page shows that consumer confidence rose both nationally and regionally from the prior month. From an annual perspective, regional consumer confidence was unchanged while national consumer confidence rose. Dr. Douglas Lonnstrom, director of the Siena College Research Institute, attributed the rise in consumer confidence to the decrease in energy prices, mild winter weather and a strong stock market.⁸

Buoyed by increased national consumer confidence, national retail sales rose 1.2% in December from the prior month. Strong auto sales propelled the index forward.⁹ Strong employment gains and housing price appreciation have made the consumer spending increase possible. The gains seen in the labor market are discussed later in the report. To facilitate consumer spending, many home-owners have been tapping into their home-equity. According to SMR Research Corporation, a market-

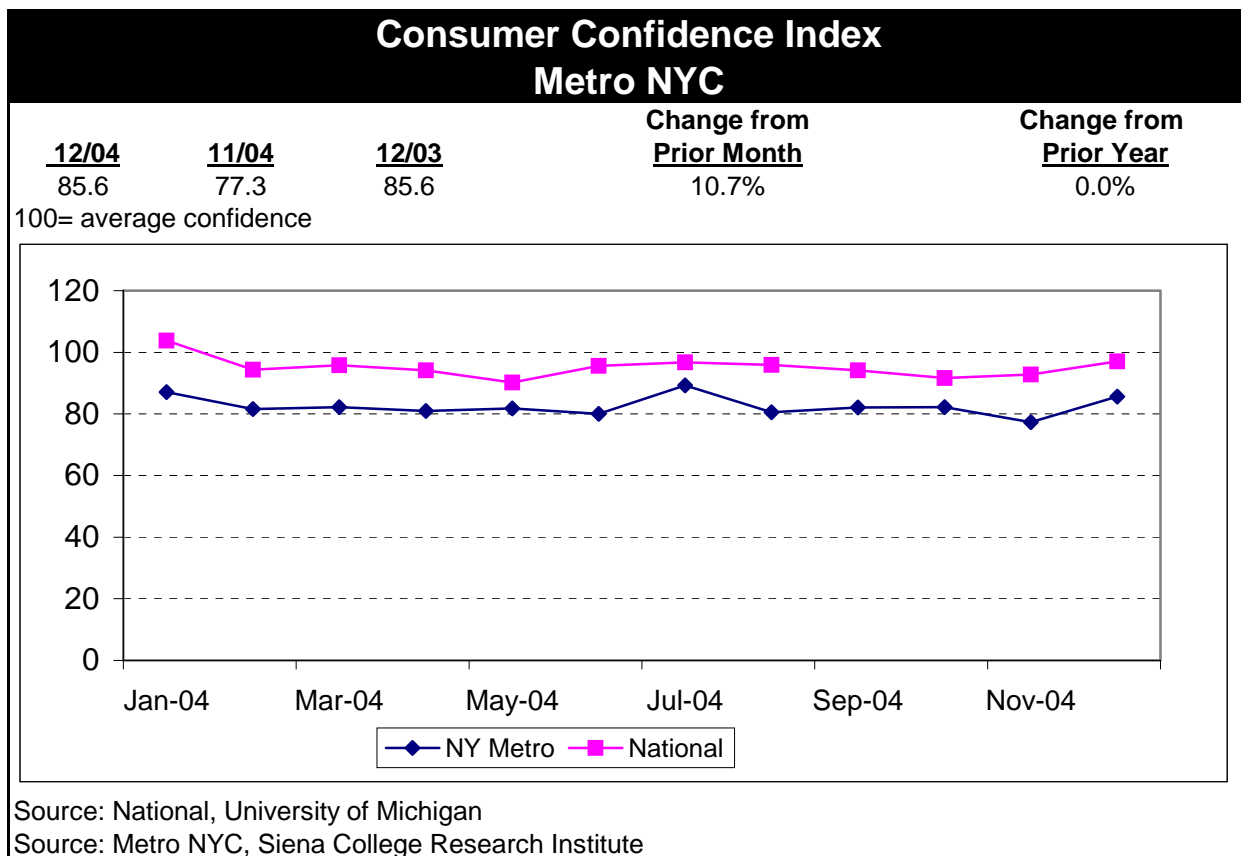
⁸ "New York Consumer Confidence for December", Siena College Research Institute, January 17, 2005.

⁹ Crutsinger, Martin, "Retail Sales Climb in December on Autos", 1010Wins.com, January 13, 2005.

research firm in Hackettstown, N.J., home-equity originations, lines of credit and loans, climbed 35% in 2004 from the prior year's level. Morgan Stanley analyst, Kenneth Posner sees this rise in home-equity originations as indicative of a fundamental change in the way that consumers make purchases. He sees home-equity financing as displacing other forms of consumer credit. Home-equity financing typically carries lower interest rates than credit cards and the interest on home-equity lines of credit is tax-deductible. He estimates that the home-equity market could grow by as much as 20% per year through 2010.¹⁰

Greater consumer spending should positively impact County sales tax collections. However, it is becoming increasingly important to monitor the methods utilized by consumers to make their purchases. The Internet continues to experience robust growth. This growth is largely untaxed. It was estimated that online holiday sales rose 29% from the prior holiday season.¹¹ Increased online consumer spending will have a negative impact on County sales tax collections.

As mentioned above, Bureau of Economic Analysis figures revealed that 50% of the increase seen in personal consumption expenditures may be attributable to higher prices. Hence, 50% of the increase seen in County sales tax collections may be attributed to confident consumers making more purchases. Some industry experts doubt that consumers will be able to continue to spend at their current pace in 2005. The National Retail Federation projects that retail sales will rise 3.5% in 2005, roughly half of the 6.7% increase they recorded in 2004. The predicted decrease in consumer spending was said to be a function of rising interest rates and overspent consumers.¹²



¹⁰ Simon, Ruth, "Home-Equity Loans Hit Record Levels", *The Wall Street Journal*, January 20, 2005.

¹¹ "Report: Happy Holidays Online", *CNN/Money.com*, January 10, 2005.

¹² Weber, Lauren, "Consumer Debt May Drag Retail Sales", *Newsday*, January 18, 2005.

Local Area Employment Figures

The labor market ended relatively strong in 2004. The national labor market added 2.2 million jobs in 2004. That represented the highest number of new jobs generated since 1999.¹³ This growth rate may be considered strong since it exceeds the 1.5 million mark necessary for job growth to keep pace with population growth and therefore avoid an increase in unemployment. The regional labor market similarly ended the year with positive job growth. Moreover, compared to the prior year, all areas surveyed saw an increase in resident employment, a decrease in resident unemployment and a decline in the unemployment rate.

The chart on the next page details the resident employment figures for the metropolitan area and the nation. The metropolitan area recorded stronger resident employment figures than those seen throughout the nation. All areas surveyed regionally witnessed an increase in resident employment coupled with labor force growth from both a monthly and an annual perspective. In contrast, the national labor market saw resident employment decline from the prior month along with a monthly decrease in its labor force.

Experts expressed concerns about the sufficiency of 2004's job growth. A recent report found that only a fourth of the jobs created on Long Island since 2000 paid above-average wages leading experts to question whether the job growth on Long Island was sufficient for our regional economy.¹⁴

Looking forward, economists expect 2005 to record more haphazard job growth. That is, although the nation generated 2.2 million new jobs in 2004, the creation did not occur at a steady rate. Some months witnessed explosive job growth while others recorded dismal job growth. This forecast is based on the fact that employers are seen as hiring based on a short-term outlook rather than a projected long-term perspective. Companies are applying the principles of just-in-time inventory management to their staffing needs. This more cautious short-term approach causes companies to rely more on temporary or contract workers. Economists see this reliance as explaining the lack of growth in real wages despite gains in productivity and the fact that unemployed individuals are remaining out of work longer. This is because short-term hires don't build salaries and a significant amount of unemployed workers might not want to take temporary work.¹⁵

¹³ Strobe, Leigh, "December Hiring Helps Fuel Job Growth", 1010Wins.com, January 7, 2005..

¹⁴ Marshall, Randi F., "Jobs Grow but Salaries Slide", Newsday.com, October 22, 2004.

¹⁵ Maher, Kris, "Jobs Outlook May Stay Volatile as Caution in Hiring Persists", [The Wall Street Journal](http://TheWallStreetJournal), January 19, 2005.

**Comparison of Employment Statistics
(figures in thousands)**

	<u>12/04</u>	<u>11/04</u>	<u>12/03</u>	Change from <u>Prior Month</u>	Change from <u>Prior Year</u>
<u>Nassau</u>					
Employed	698.5	697.6	693.2	0.1%	0.8%
Unemployed	24.3	24.4	27.0	-0.4%	-10.0%
Unemployment rate	3.4%	3.4%	3.7%	0.0%	-8.1%
<u>Suffolk</u>					
Employed	742.1	741	736.4	0.1%	0.8%
Unemployed	30.2	29.5	33.6	2.4%	-10.1%
Unemployment rate	3.9%	3.8%	4.4%	2.6%	-11.4%
<u>NYC</u>					
Employed	3,507.0	3,508.0	3,376.0	0.0%	3.9%
Unemployed	227.0	202.0	292.0	12.4%	-22.3%
Unemployment rate	6.1%	5.4%	8.0%	13.0%	-23.8%
<u>Nation</u>					
Employed	140,278.0	140,581.0	138,556.0	-0.2%	1.2%
Unemployed	7,599.0	7,665.0	7,945.0	-0.9%	-4.4%
Unemployment rate	5.1%	5.2%	5.4%	-1.9%	-5.6%

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>12/04</u>	<u>11/04</u>	<u>12/03</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Natural Resources, Construction & Mining	65.5	67.7	65.1	-3.2%	0.6%
Manufacturing	87.9	87.7	88.0	0.2%	-0.1%
Wholesale Trade	74.6	74.4	74.2	0.3%	0.5%
Retail Trade	173.5	167.6	172.9	3.5%	0.3%
Transportation, Warehousing & Utilities	37.3	37.2	37.1	0.3%	0.5%
Information	28.1	27.9	28.8	0.7%	-2.4%
Financial Activities	85.0	84.7	84.4	0.4%	0.7%
Professional & Business Services	156.9	158.0	153.8	-0.7%	2.0%
Educational & Health Services	203.3	202.0	199.2	0.6%	2.1%
Leisure & Hospitality	93.6	94.1	91.1	-0.5%	2.7%
Other Services	51.8	51.8	51.4	0.0%	0.8%
Government	205.3	204.5	203.6	0.4%	0.8%
Total	<u>1,262.8</u>	<u>1,257.6</u>	<u>1,249.6</u>	<u>0.4%</u>	<u>1.1%</u>
Source: NYS Department of Labor					

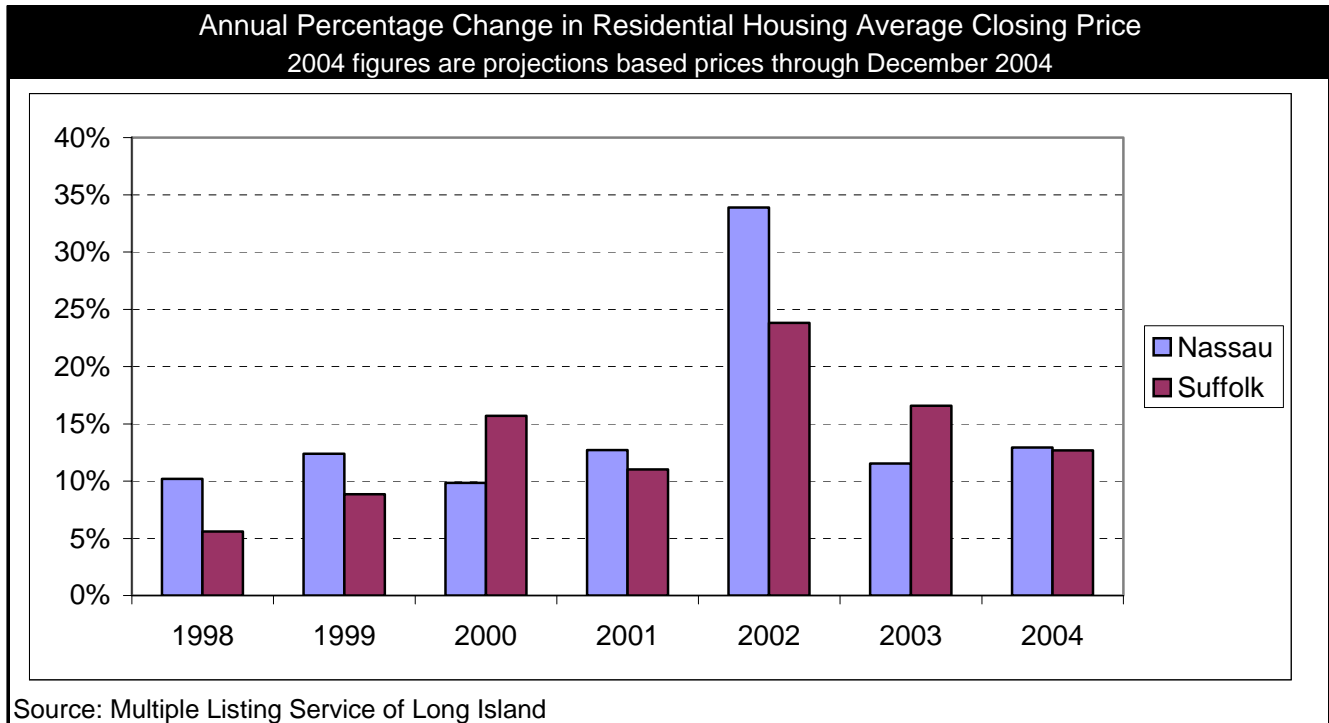
In December 2004, the Long Island economy added 5,200 new non-farm jobs from the prior month and 13,200 new non-farm jobs from the prior year. The new job growth was widespread, with nine of the twelve sectors showing monthly increases and ten of the twelve sectors recording yearly increases.

The greatest monthly job gains were in the Retail sector. Much of that increase may be attributed to stores hiring additional staff for the holiday season. Trailing the retail sector in terms of job gains was the Information sector. A detailed look at the sector reveals that it is the Broadcasting (except Internet) area that registered the strongest job growth. Monthly job growth in the Information sector is significant since the sector witnessed the greatest amount of job loss from an annual vantage point. From an annual perspective, the Leisure & Hospitality and Educational and Health Services sectors witnessed the strongest job gains.

The greatest turnaround was seen in the Manufacturing sector. From 2003 to 2004 the sector experienced a loss of 100 jobs. That is a huge improvement from the 10,500 job loss experienced from 2000 to 2001. Industry experts attribute the reversal to increased defense spending. Defense spending is expected to be strong through 2005.¹⁶

Residential Housing Market

2004 was a strong year for Nassau’s residential housing market. All indicators posted increases from the prior year’s level. This month’s section considers whether or not current housing growth rates are sustainable in 2005 by analyzing some of the causes of the growth.



In 2004, Nassau County recorded a 12.9% annual increase in average residential home prices. Suffolk County experienced a 12.7% annual increase in average residential home prices. In December 2004, Nassau’s average closing price was \$549,300 and Suffolk’s was \$419,300.

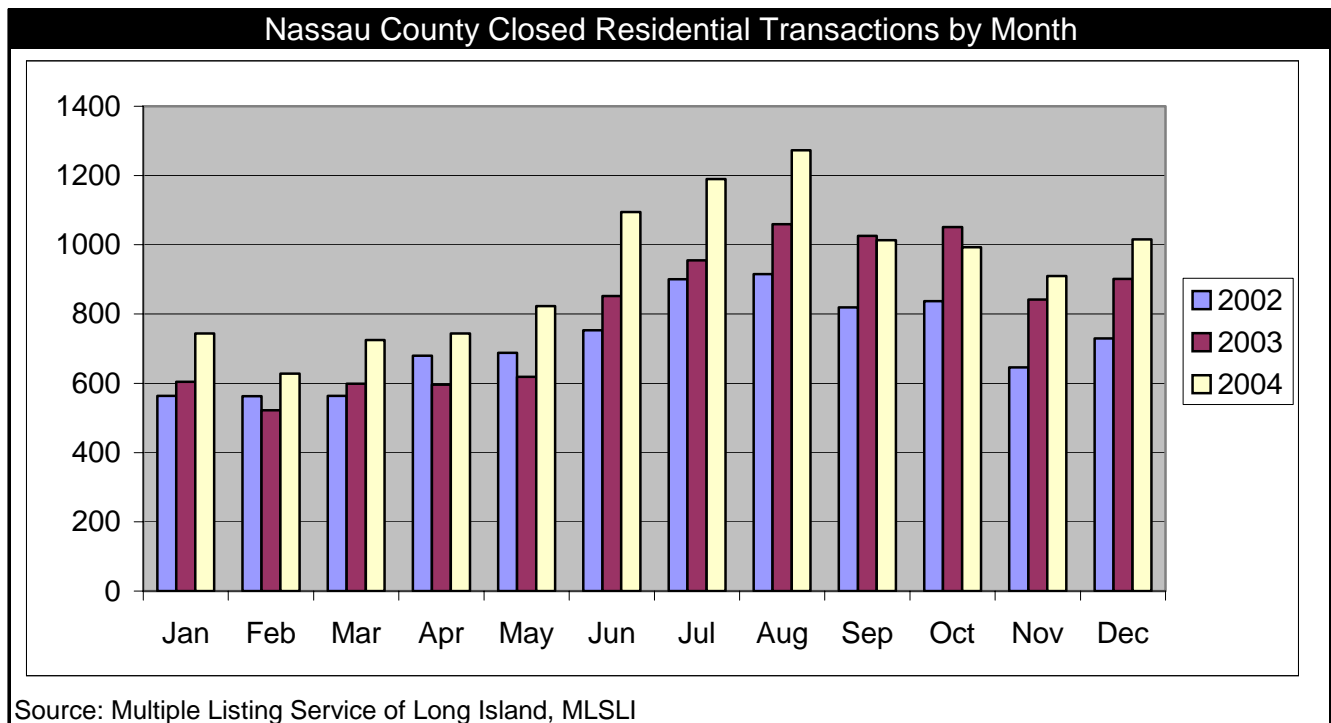
Recent housing reports raised concerns about the sustainability of current housing growth rates and the impact of a decline in the housing market. A report by the National Association of Realtors cited low interest rates and an improving economy as the basis for the growth seen in the residential housing market. The combination of those two factors made it possible for many first-time home buyers to enter the market. It found that four out of ten home purchases were made by first-time buyers. On average, first-time home buyers financed a median of 97% of the purchase price and were 32 years old.¹⁷ Having the residential housing market propelled forward by 32 year old first-time homeowners poses risks. A recent study labeled the 25 to 34 year-old age bracket, “Generation Broke”. The study found that dramatic increases in college costs, housing costs, and credit-card marketing coupled with a

¹⁶ Marshall, Randi F., “LI Employers Add 13,200 Jobs in December”, *Newsday*, January 21, 2005.

¹⁷ Flandez, Raymund, “First-Time Home Buyers Kept Housing Boom Going This Year”, *The Wall Street Journal*, November 18, 2004.

stagnant job market are causing the 25 to 34 year-old age bracket to be one of the most, if not the most, indebted generation of young Americans ever. The age group has the second-highest rate of bankruptcy, after those in the 35 to 44 year-old age group.¹⁸ If interest rates continue to rise and job growth remains subdued, the Generation Broke age group may find it difficult to purchase homes. Moreover, if home prices decline, these homeowners would not be able to sell their homes since they have no home equity. Lastly, cash-out home refinancings are responsible for significant percentage of consumer spending. If interest rates rise and home price appreciation diminishes, overall economic activity and County sales tax collections will be negatively impacted.

The chart on the next page details the number of closed transactions in Nassau County by month. In December 2004 there were 1,016 closed transactions completed. That is up from November 2004's 910 level and up from December 2003's 902 level. In 2004, Nassau recorded a 15.9% increase in closed transactions. The increase in closed transactions will positively impact County Clerk fees.



Residential inventory levels decreased on Long Island in December from a monthly vantage point. Nassau County's residential inventory level fell by 15.1% from the prior month. Similarly, in Suffolk County residential inventory levels decreased 13.7% from November 2004. Much of the monthly decline seen in residential inventory levels may be attributed to seasonality, since the housing market typically slows down during the holiday season. Both counties recorded annual increases in their inventory levels.

The Lodging Industry

Nationwide the lodging industry has been recording price growth. Increased demand has enabled hotels and motels to increase average room rental rates. Industry experts are expecting this hotel room price growth to continue in 2005. Price-Waterhouse Coopers is predicting that average daily rates for

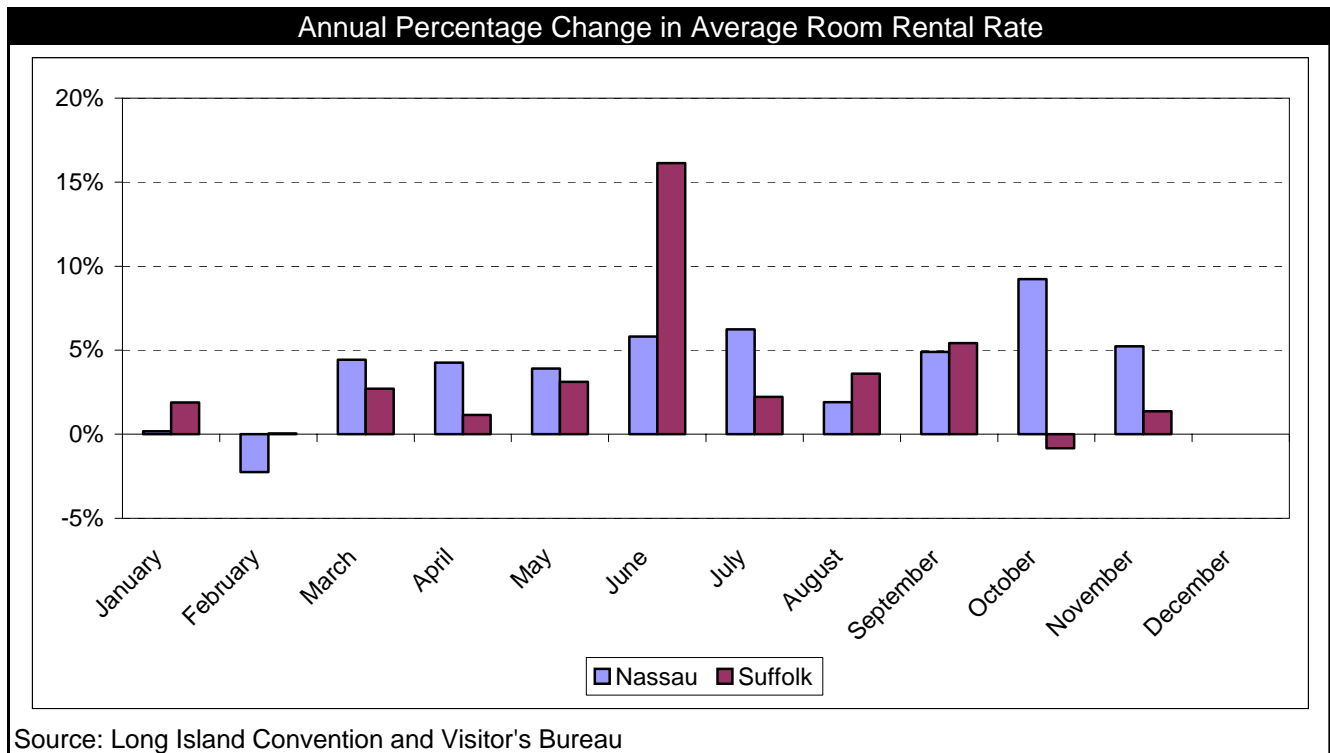
¹⁸ "Why Young Americans are Drowning in Debt", CNN/Money.com, December 9, 2004.

U.S. hotels will rise by 4.3% next year.¹⁹ Concurrent with the increase in average room rental rates, occupancy rates on Long Island have declined in ten of the eleven previous months. A causal relationship between the two variables can not be deduced since the number of hotel rooms on Long Island has been growing.²⁰ According to analysts, hotel costs have begun to outweigh transportation costs on business trips.²⁰ In an attempt to rein in travel expenses businesses are pursuing several avenues. Businesses are encouraging their employees to stay at limited-service hotels, utilize all discounts which they may qualify for and lodge at corporate apartments instead of local hotels.²¹ These occupancy and price trends are reflected in the regional statistics displayed below.

Nassau County Hotel / Motel Occupancy Rate					
	<u>11/04</u>	<u>10/04</u>	<u>11/03</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Occupancy Rate	69.0%	77.2%	70.2%	-10.6%	-1.7%

Source: Long Island Convention and Visitors Bureau

The chart below shows that average room rental rates on Long Island have increased from the prior year's level in ten of the eleven past months. The year-to-date average price increase in Nassau is 4.0% and in Suffolk 3.3%. As mentioned previously this upward price trend is being experienced throughout the nation.

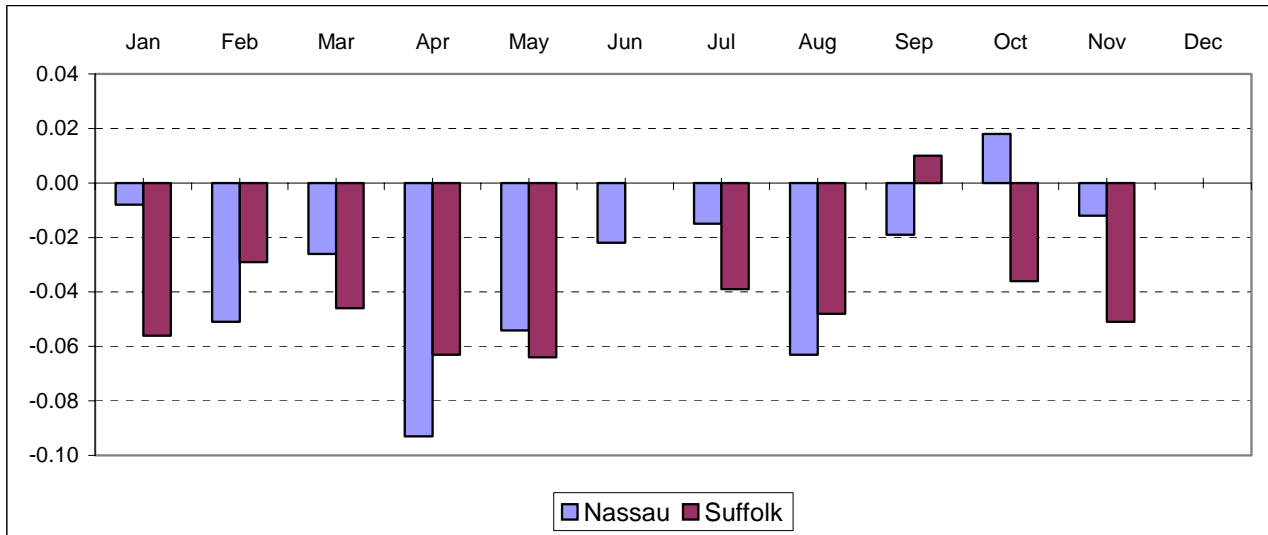


¹⁹ Binkley, Christina, "Hotels are Lifting Rates, Profits as Deals Disappear, Study Finds", *The Wall Street Journal*, December 9, 2004.

²⁰ Woodyard, Chris, "Hotel Rates Often Top Airfare as Biggest Trip Expense", *USAToday.com*, November 8, 2004.

²¹ Woodyard, Chris, "Companies Put Out by Hotel Rates", *USAToday.com*, November 1, 2004.

Spread between 2004 and 2003 Occupancy Rates



Source: Long Island Convention and Visitor Bureau

Occupancy rates in both Nassau and Suffolk Counties have decreased in ten of the past eleven months. Year-to-date, occupancy rates in Nassau are down 0.35 points and 0.42 points in Suffolk County. However, since the supply of hotel rooms on Long Island has been growing, it is unclear whether higher prices or increased supply is depressing occupancy rates on Long Island. The hotel building trend is not expected to subside in the near future since currently there are plans to open more hotels in both Nassau and Suffolk Counties in the coming years.²²

Conclusion

The economy ended strong in 2004. More residents were employed and consumers were more confident. Hopefully, the strong job growth will translate into personal income increases sufficient enough for households to cope with the increased price level. This momentum is expected to continue in the near future. The Conference Board's Index of Leading Indicators rose for a second month in a row in December. Analysts take this to mean that the economy will experience sustained, gradual growth over the next three to six months.²³

²² Herzlich, Jamie, "More Rooms to Choose From on LI", [Newsday.com](http://www.newsday.com), November 3, 2004.

²³ Geller, Adam, "Leading Economic Indicators Rise Again", [Newsday.com](http://www.newsday.com), January 20, 2005.