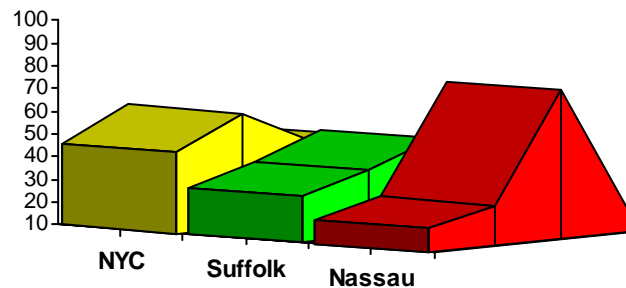
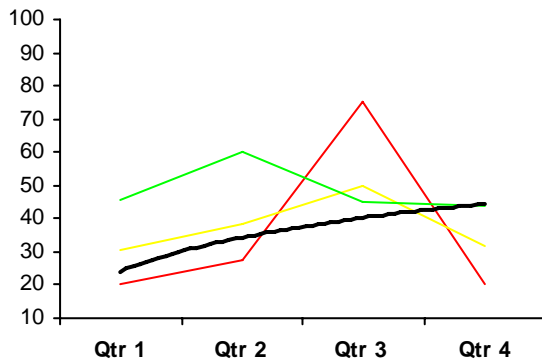
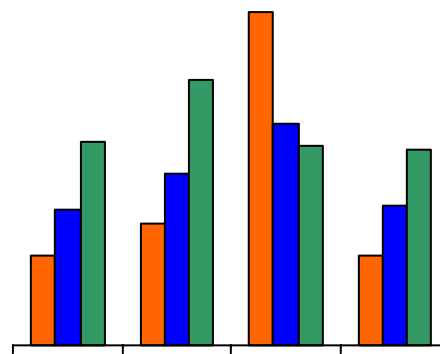
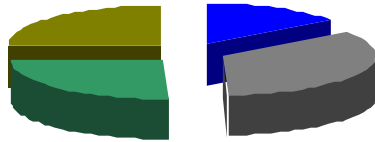




NASSAU COUNTY LEGISLATURE

Office of Legislative Budget Review

Nassau County Economic Indicators



May 2006



ERIC C. NAUGHTON
DIRECTOR
OFFICE OF LEGISLATIVE
BUDGET REVIEW

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Inter-Departmental Memo

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

From: Eric C. Naughton, Director
Legislative Budget Review

Date: June 23, 2006

Re: May 2006 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.

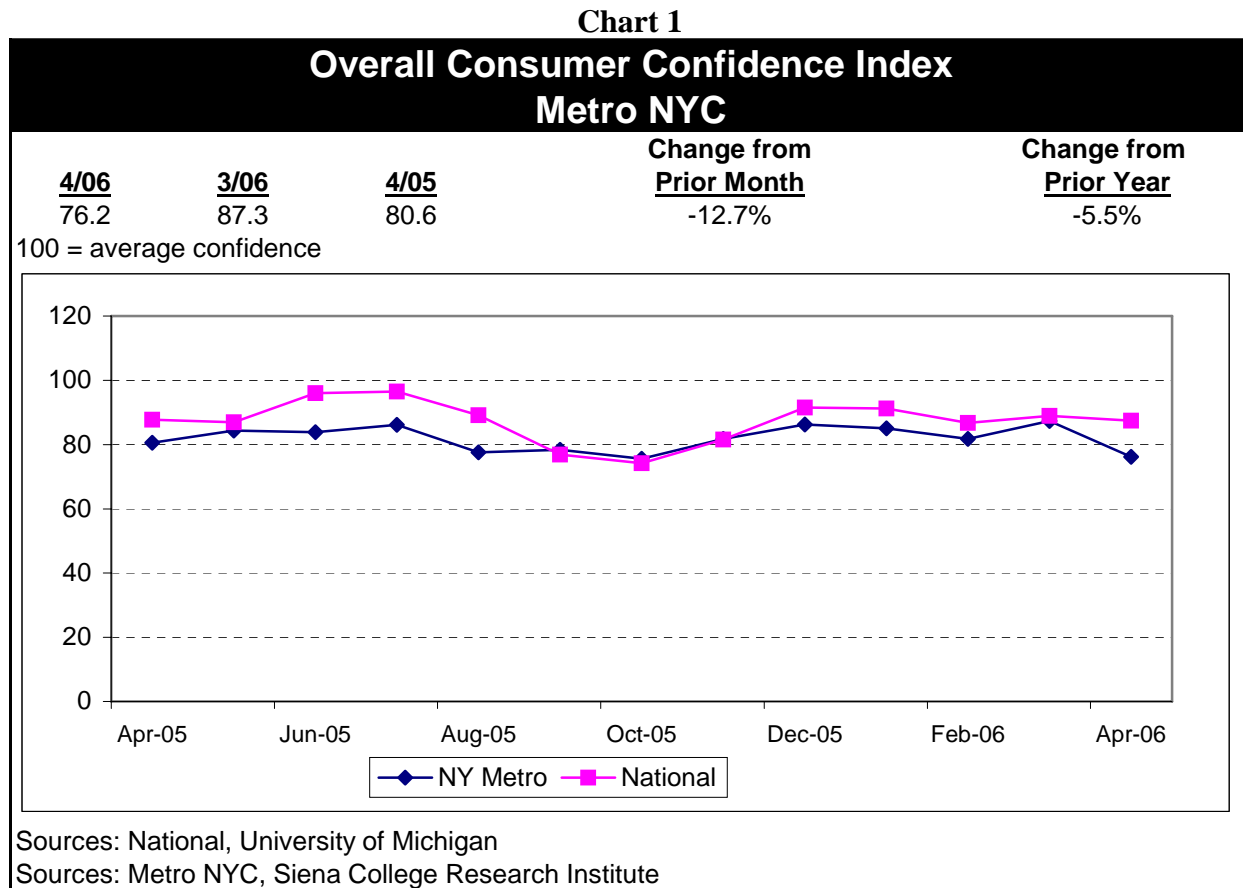
cc Hon. Howard Weitzman, County Comptroller
David Gugerty, Majority Counsel
Joseph Nocella, Minority Counsel
Mark Young, Budget Director
Richard Luke, Executive Director, NIFA
Dan McCloy, Special Assistant Minority
Ed Ward, Special Assistant to Minority
Tom Stokes, Deputy County Executive
Carol Trottere, Majority Press Secretary
Roseann D'Alleva, Majority Finance
Marilyn Gottlieb, Director of Legislative Affairs
Bill Geier, Clerk of the Legislature
Fran Evans, Director of Policy

May 2006 Monthly Economic Indicators Report

The economy moved forward at a slow pace in April 2006. Consumer confidence and average room rental rates fell from a monthly perspective. On Long Island, resident employment and jobs grew marginally. Additionally, housing price appreciation in Nassau is projected to be 4.8% for the year, the lowest rate recorded in nine years. Experts are not expecting economic growth to pick up within the near future. According to the Federal Reserve Bank of Philadelphia’s most recent Survey of Professional Forecasters, real national GDP will steadily decline in the remaining quarters of 2006.

Consumer Confidence Index

In April 2006, consumer confidence fell both regionally and nationally from both a monthly and an annual perspective. The regional decline was more sizeable than that seen throughout the nation. Chart 1 below details monthly changes recorded by the national and regional consumer confidence indices over the prior year.



According to Dr. Douglas Lonnstrom, Director of the Siena College Research Institute, “Everyone is feeling the effect of high energy prices.”¹ High energy prices are impacting both current confidence as well as future consumer confidence. Table 1 on the next page breaks out consumer confidence into its two component parts, current and future confidence. Both of those indices combine to produce the overall index detailed in the chart above.

¹ “NYS Consumer Confidence Plummets”, Monthly Consumer Confidence Index, Siena College Research Institute, April 6, 2006.

Table 1

Detailed Consumer Confidence Indices					
Metro NYC					
	<u>4/06</u>	<u>3/06</u>	<u>4/05</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Current Consumer Confidence	84.1	93.2	86.8	-9.8%	-3.1%
Future Consumer Confidence	71.0	83.4	76.6	-14.9%	-7.3%

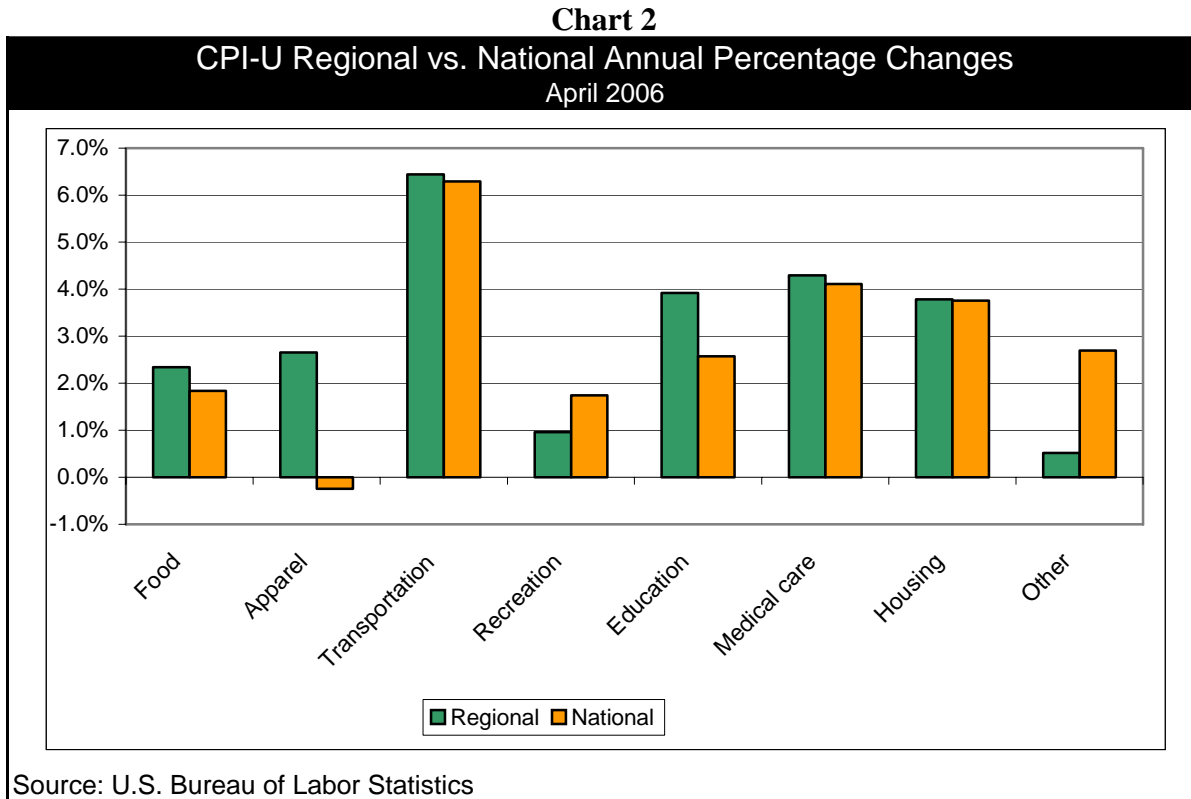
Source: Metro NYC, Siena College Research Institute

Current consumer confidence is based upon how consumers view the economy at the present time. The future consumer confidence index asks consumers where they see the economy and their personal finances over the next one to five years. Both current and future consumer confidence decreased from both a monthly and annual perspective. The monthly 14.9% drop in future consumer confidence was most pronounced. The smallest recorded decline was the 3.1% annual droop in current consumer confidence. This should impact future consumer spending and County sales tax collections.

Not only have consumers lost confidence in the economy, but so have chief executives of small and mid-sized companies. According to the most recent Vistage Confidence Index, a survey of 1,836 chief executives who are members of Vistage International, a CEO membership organization comprised of 12,000 members in 15 countries, the rapid pace of U.S. economic growth this year will slow in the second half of the year. The chief executives surveyed cited tightening labor markets and rising costs, energy and interest, as reasons for slower future economic growth.²

² “CEO’s See Slower Second-Half Growth Pace”, [Yahoo.com News](#), May 31, 2006.

Consumer Price Indexes



Consumer prices increased both nationally and regionally from both a monthly and an annual perspective in April 2006. Chart 2 above details the annual changes seen in both regional and national consumer price indices. The greatest increase can be found in Transportation which results from continued soaring gas and oil prices. As can be seen in Table 2 on the following page, the Consumer Price Index for all types of gasoline is up 16.7% from last month and 25.4% from the prior year. High gasoline prices are also affecting the profits of gas and convenience store owners because the additional amount paid in increased expenses to the credit card company reduces the owners' profits. In response, convenience owners are offering discount gasoline prices to consumers who pay with cash.³

Looking forward the rise in gasoline prices can lead to subsequent increases in other industries such as apparel, food and recreation. Wal-mart Stores Inc. currently estimates May sales to increase on the low end of its 2%-4% forecast range due to increased gasoline and utility prices.⁴ According to a recent press release, Tom Schoewe, executive vice president and chief financial officer for Wal-Mart Stores suggests that fuel prices continue to be a top concern for customers and that patrons are consolidating their store visits and focusing their spending on consumables, a trend, Schoewe indicates, that has continued since Easter. Schoewe further reports that, "we were not surprised that traffic was down moderately for the U.S. stores in May and that average ticket continued to drive our comp. We continue, however, to make steady progress on many initiatives we have under way to achieve growth and improve return on investment".⁵

³ Hagenbaugh, Barbara, "Paper or plastic? Answer might save at the pump," *USA Today*, May 31, 2006.

⁴ "Gas prices take toll on Wal-Mart sales," *CNNMoney.com*, May 27, 2006.

⁵ Ibid

Table 2**Consumer Price Indexes
New York-Northern Jersey-Long Island, NY-NJ-CT-PA region**

	<u>4/06</u>	<u>3/06</u>	<u>4/05</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
US City, CPI-U	201.5	199.8	194.6	0.9%	3.5%
Regional CPI-U	220.2	218.2	212.5	0.9%	3.6%
Core CPI-U (All Items less energy)	224.7	223.6	218.8	0.5%	2.7%
Medical	339.9	338.6	325.9	0.4%	4.3%
Housing	236.0	233.4	227.4	1.1%	3.8%
Gasoline (all types)	213.6	183.1	170.4	16.7%	25.4%

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

Local Area Employment Figures

The Long Island regional employment market moved marginally forward in April 2006. The number of employed residents grew by 0.5% from last month and 1.0% from April 2005 for both Nassau and Suffolk counties. Annually the number of employed residents has increased by 1.0%. In Nassau County, the number of unemployed residents fell by 4.7% from the previous month. In Suffolk County, 200 more residents were unemployed as compared to April 2006. Overall, more Long Island residents elected to enter the workforce, which contributed to the decline in Nassau's unemployment rate. Long Island's unemployed residents totaled 26,400 in Nassau County and 33,000 in Suffolk County in April 2006.

From a monthly perspective, New York City saw a 0.5% decline in the number of employed residents. In contrast, from an annual perspective, New York City registered a 1.9% increase in employed residents. The area's unemployment rate was 5.1% in April 2006 compared with 5.5% in both March 2006 and April 2005. Compared to the prior month, residents chose to leave the New York City labor force. Although that is the lowest rate for any April since 1988, the city's rate is still higher than the state and national average of 4.7 percent. This number translates into approximately 209,400 unemployed city residents. These developments are illustrated on the next page in Table 3 from both a monthly and an annual perspective.

Table 3**Comparison of Employment Statistics
(figures in thousands)**

	<u>4/06</u>	<u>3/06</u>	<u>4/05</u>	Change from <u>Prior Month</u>	Change from <u>Prior Year</u>
<u>Nassau</u>					
Employed	667.6	664.1	661.0	0.5%	1.0%
Unemployed	26.4	27.7	26.3	-4.7%	0.4%
Unemployment rate	3.8%	4.0%	3.8%	-5.0%	0.0%
<u>Suffolk</u>					
Employed	748.2	744.3	740.8	0.5%	1.0%
Unemployed	33.0	32.8	30.0	0.6%	10.0%
Unemployment rate	4.2%	4.2%	3.9%	0.0%	7.7%
<u>NYC</u>					
Employed	3,574.0	3,592.8	3,506.1	-0.5%	1.9%
Unemployed	209.4	213.6	206.8	-2.0%	1.3%
Unemployment rate	5.1%	5.5%	5.5%	-7.3%	-7.3%

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

Nassau-Suffolk Non-agricultural Employment

Table 4

Nassau-Suffolk Area					
(figures in thousands)					
	<u>4/06</u>	<u>3/06</u>	<u>4/05</u>	<u>Change from</u> <u>Prior Month</u>	<u>Change from</u> <u>Prior Year</u>
Educational & Health Services	202.4	201.7	201.3	0.3%	0.5%
Financial Activities	80.7	80.8	81.3	-0.1%	-0.7%
Government	202.6	202.1	202.3	0.2%	0.1%
Information	29.4	29.2	29.1	0.7%	1.0%
Leisure & Hospitality	93.1	88.1	92.8	5.7%	0.3%
Manufacturing	86.6	86.9	87.5	-0.3%	-1.0%
Natural Resources, Construction & Mining	66.7	63.0	66.0	5.9%	1.1%
Other Services	52.7	52.2	52.3	1.0%	0.8%
Professional & Business Services	160.3	155.5	158.3	3.1%	1.3%
Retail Trade	160.6	158.9	159.5	1.1%	0.7%
Transportation, Warehousing & Utilities	37.3	37.2	37.1	0.3%	0.5%
Wholesale Trade	70.6	70.9	71.4	-0.4%	-1.1%
Total	<u>1,243.0</u>	<u>1,226.5</u>	<u>1,238.9</u>	<u>1.3%</u>	<u>0.3%</u>

Source: NYS Department of Labor

The Long Island job market experienced solid monthly job growth in April 2006, surpassing the 1% mark indicative of healthy growth. The greatest monthly increases were in the Natural Resources, Mining and Construction, Leisure & Hospitality and Professional Services sectors. Within the Leisure & Hospitality sector, Arts, Entertainment and Recreation experienced the strongest growth of 13.8% from the previous month.

As shown in Table 4 above, over the year, jobs in Long Island increased by a negligible 0.3 percent to 1,243.0 in April 2006 missing the 1% benchmark. Although gains were largest in Professional and Business services, followed by Natural Resources, Mining and Construction, losses in the Wholesale Trade, Manufacturing and Financial Activities sectors offset these gains. Government employment

rose slightly by 0.1% compared to the same time last year. The April 2006 unemployment rate was 4.0 percent, up slightly from 3.9 percent in April 2005.

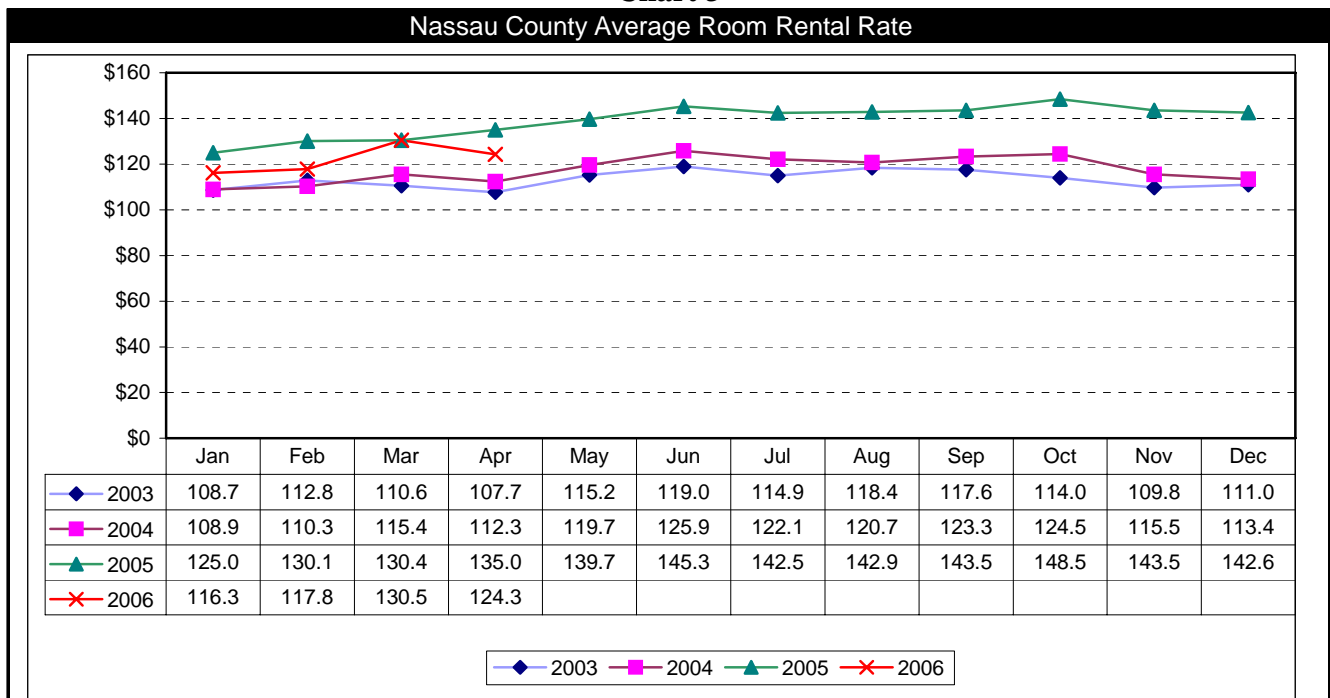
The sluggish annual growth in the Long Island job market may be the result of the decline in the number of new jobs produced by Long Island’s top publicly traded companies. Although the top 50 public companies employ only 2% of Long Island’s 1.2 million workers, these positions are critical to the local economy.⁶ Experts further maintain that there is no indication that the decline in local shares of these Long Island companies’ job pools will reverse itself in the imminent future. This decrease in the number of jobs, if the trend continues, will become problematic since Long Island depends on these companies as engines of its economy, particularly because these lost positions often require more skills and education, pay more, and affect other hiring.⁷

The Lodging Industry

In April 2006, the Nassau County lodging industry continued to move forward. An 8% drop in average room rental rates contributed to the 8% rise in occupancy rates. Different trends were witnessed in Suffolk County where average room rental rates were unchanged and occupancy rates declined 2.3% compared to the previous year. Chart 3 below details the average room rental rate charged in Nassau by month over the past four years.

Chart 3

Nassau County Average Room Rental Rate



Source: Long Island Convention & Visitor's Bureau

Chart 4 on the following page depicts hotel/motel occupancy rates for both Nassau and Suffolk Counties by month over the prior year. Since January 2006, both Counties have experienced a steady rise in occupancy rates. The main difference between the tourism demand seen in both Counties is that

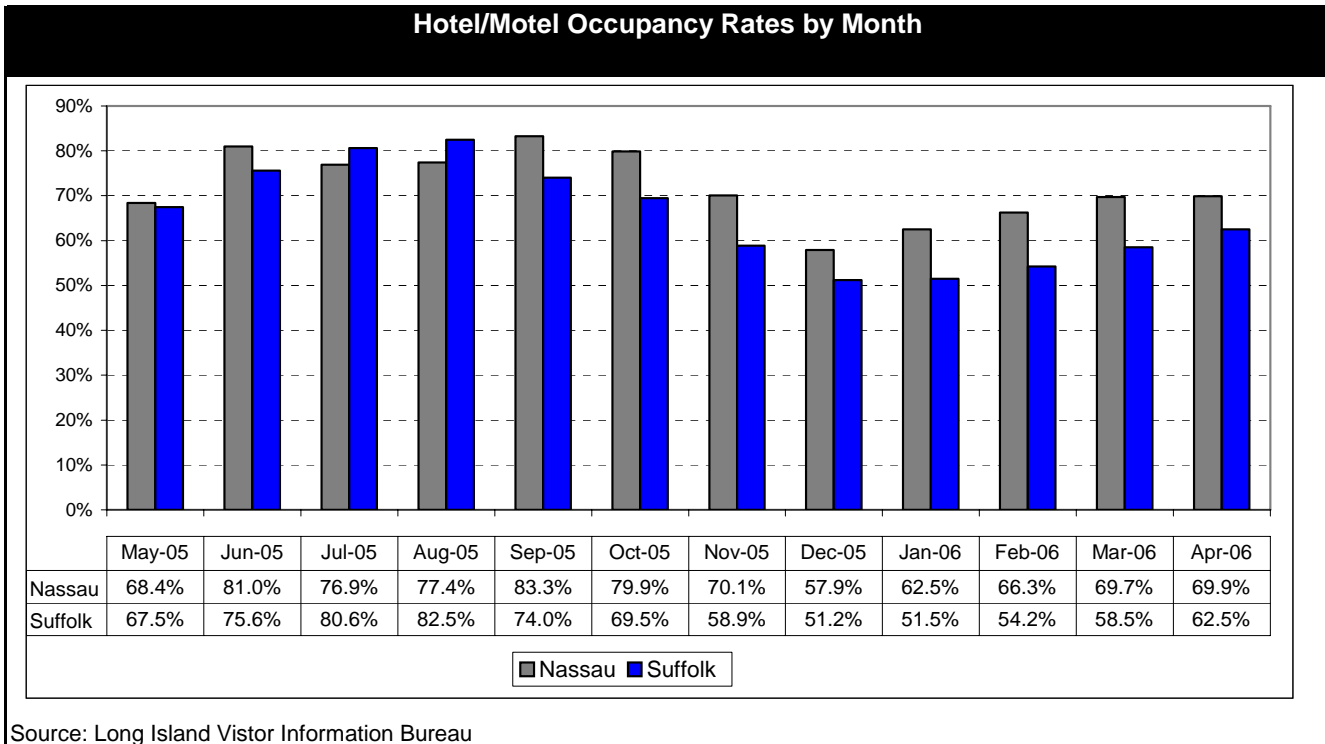
⁶ Marshall, Randi, “New jobs grow, but away from Long Island,” Newsday.com, May 15, 2006.

⁷ Ibid.

hotels and motels located within Suffolk County have been able to increase occupancy rates without reducing rental rates.

Chart 4

Hotel/Motel Occupancy Rates by Month



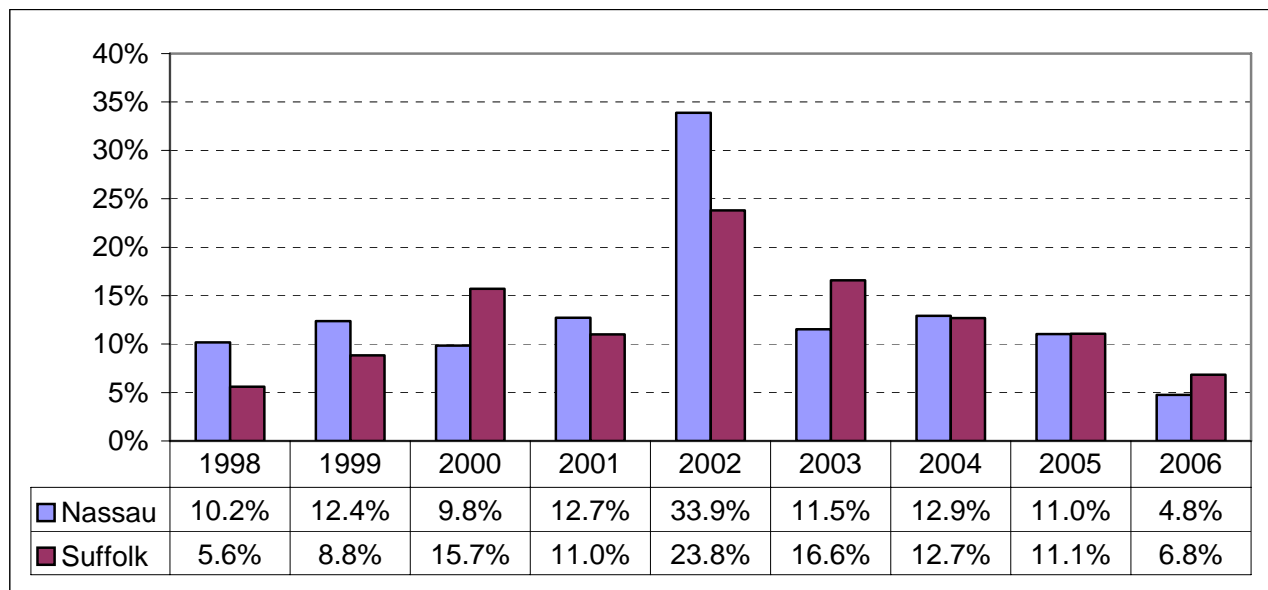
Residential Housing Market

In April 2006, the residential housing market on Long Island slowed down in terms of home price appreciation, inventory levels and transactions. Sales of new homes increased, prices were down 5.8% for the month and the backlog of unsold homes hit a new record. Higher interest rates are continuing to place downward pressure on housing growth rates. Mortgage interest rates are currently at four-year highs and this is causing the rate of home price appreciation to fall and the number of closed transactions to decline. Chart 5 on the next page reveals that if current housing trends continue, Nassau County home prices would appreciate on average 4.7% in 2006. This would be the lowest rate of growth seen in Nassau County since 1998. Home appreciation continues to decline for the sixth month in a row.

Home price appreciation varies depending upon which variable is used. Home price appreciation growth rate rises but at a slower pace when median home price data are used. In April, Nassau’s median home price of \$470,000 increased by 4.2% from last year. Suffolk County’s median home price of \$385,000 has increased 4.3% from an annual perspective. Home price appreciation declines when the average closing price is used. In April, Nassau’s average closing price declined by 5.8% from last year. Suffolk County’s average closing price declined 3.3%.

Chart 5

Annual Percentage Change in Residential Housing Average Closing Price
 2006 figures are projections based prices through April 2006



Source: Multiple Listing Service of Long Island

Furthermore, according to the Pending Home Sales Index, U.S. homes under contract slipped for the third month in a row during the month of April. On a regional basis, homes under contract in Nassau registered a 3.4% decline annually and Suffolk County realized a 10.6% drop. The Pending Home Sales Index records pending sales of existing single-family units, condominiums and co-ops. A home sale is pending when the contract has been signed but the transaction has not been closed. According to the National Association of Realtors, pending home sales provide the best measure for the overall direction of the housing market.⁸

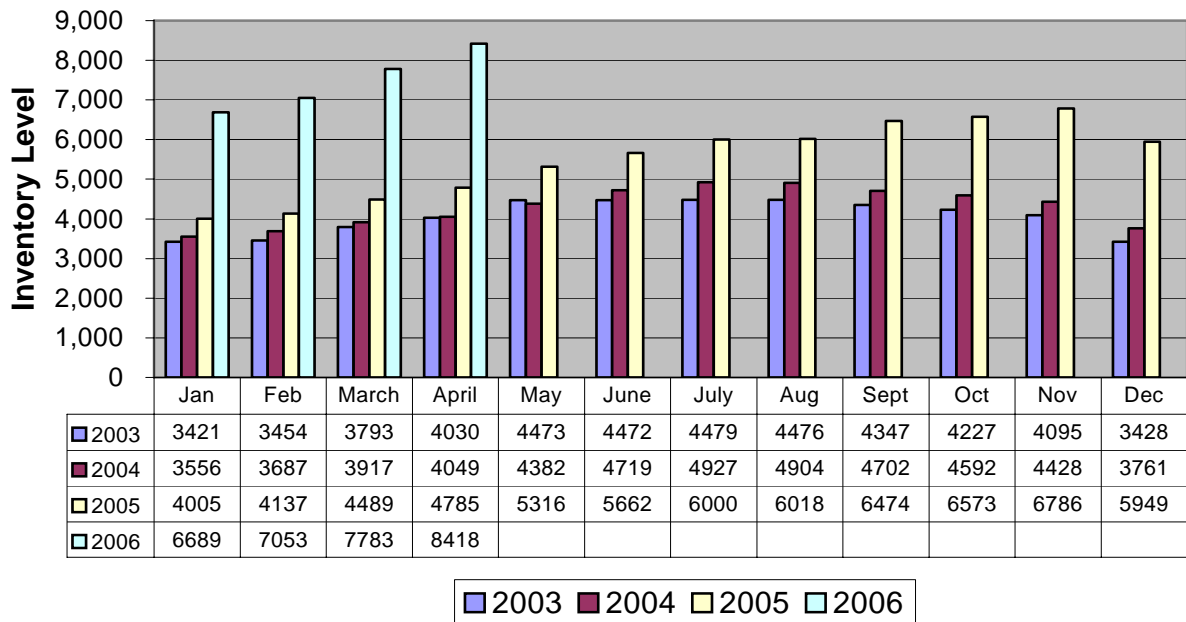
Residential inventory levels continue to escalate for the month of April at a record annual pace. The number of unsold homes in Nassau is up 75.9% compared to this time last year. In Suffolk County residential inventory levels have increased 63.2% from March 2005. On a national level inventories rose 5.8%, a six month supply at the April sales pace. In Nassau and Suffolk it would take nine and ten months respectively to sell out the current inventory, the highest levels since the late 1990's.⁹ Chart 6 on the following page details residential inventory levels in Nassau County by month over the past four years.

⁸ "U.S. April pending home sales index eases." Reuters.com, June 1, 2006.

⁹ Marshall, Randi F., "Long Island market shows hint of tilt that favors buyers", The Chicago Tribune.com, May 21, 2006.

Chart 6

Nassau County Residential Inventory Levels

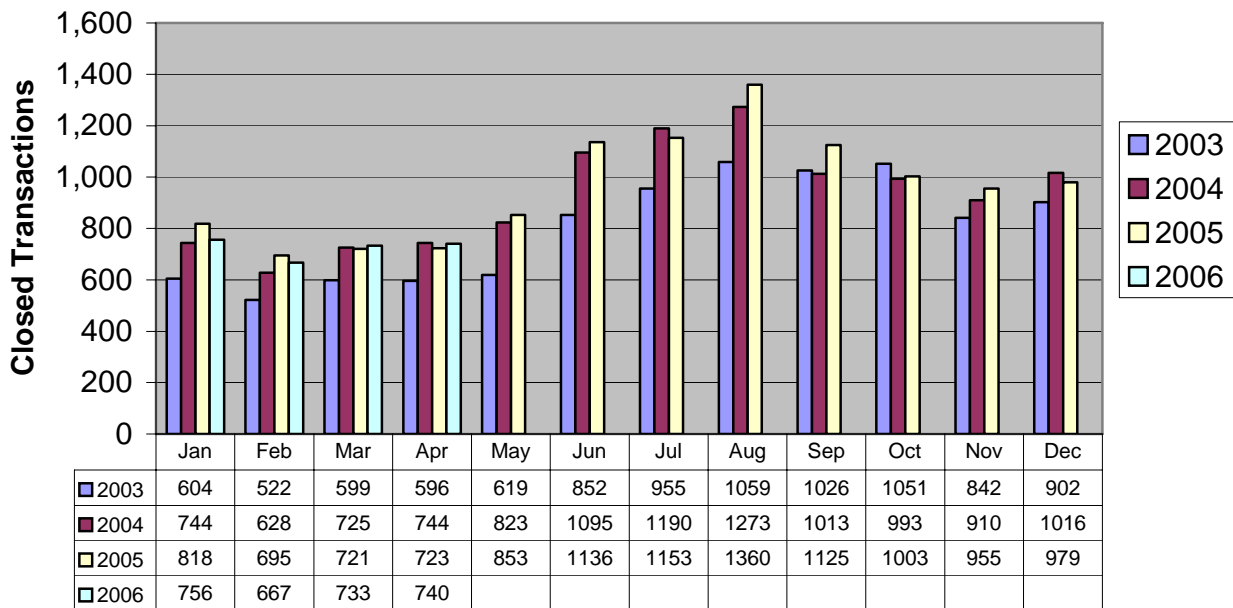


Source: Multiple Listing Service of Long Island

Chart 7 below details closed residential transactions in Nassau by month over the past four years. Year-to-date 2006 Nassau County closed transactions totaled 2,896. That is 2.1% less than at this time last year. This is a shift from previous years when the number of closed transactions increased.

Chart 7

Nassau County Closed Residential Transactions by Month



Source: Multiple Listing Service of Long Island, MLSLI

Many analysts suggest that this Spring has been one of the slowest in the past six years and is likely to continue into the summer. The slowdown in the housing market should result in lower County Clerk fee revenues and potentially sales tax revenue. County Clerk fees, such as the mortgage recording fee and deed recording fee, are heavily dependent on the number of closed transactions. As the number of closed transactions declines, so will County Clerk fee revenue. Additionally, sales tax revenues could fall as the number of housing-related jobs diminishes and residents have less home equity to tap. Over the past four years these jobs have represented roughly 7.5% of all Long Island jobs. If housing-related employers have to lay off workers as a result of the slowdown, those laid off workers will have less income available to make purchases and County sales tax collections will decline. In addition, residents have been utilizing their home equity to finance major purchases. As home equity declines individuals will make fewer purchases and the County will collect less sales tax revenue.

Conclusion

The first quarter of 2006 witnessed strong economic growth. According to the Census Department, first quarter 2006 GDP was 5.3%. It was the best growth rate recorded since the fourth quarter of 2003.¹⁰ Economic growth rates are projected to be positive but are expected to decrease throughout the rest of the year. Experts are currently forecasting 3.4% real GDP growth in the second quarter of 2006, 3.1% real GDP growth for the third quarter 2006, and 3.0% real GDP growth for the fourth quarter 2006.¹¹ April 2006 economic figures support this projection. Real GDP may be seen as a good indicator for the direction and magnitude of future County job growth, retail sales and sales tax collections.

¹⁰ "Growth Revised Up to 5.3% Rate", [CNN/Money.com](#), May 25, 2006.

¹¹ "Survey of Professional Forecasters", [Federal Reserve Bank of Philadelphia](#), May 15, 2006.