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Inter-Departmental Memo

To: Hon. Vincent Muscarella, Chairperson Budget Review Committee
All Members of the Nassau County Legislature

From: Maurice Chalmers, Director
Office of Legislative Budget Review

Date: June 18, 2019

Re: June 2019 Economic Report

Attached is a copy of the Office of Legislative Budget Review's June 2019 economic report. This report is being circulated to assist the Legislature in making policy decisions and in assessing budgetary forecasts.



OFFICE OF LEGISLATIVE BUDGET REVIEW

The Regional and National Economic Forecast for 2019 to 2023

June 2019

The Office of Legislative Budget Review, (OLBR), has received Moody’s Analytics May 2019 forecast of significant Nassau County economic variables. OLBR has compiled, analyzed, and illustrated Moody’s current economic forecast for planning and projecting purposes. Throughout the report, OLBR presents Moody’s forecast and provides its insights.

The national economy grew at 3.1% in the first quarter of 2019. The Commerce Department expects economic growth as measured by real Gross Domestic Product, (GDP) to fall below 2.0% in the second quarter of 2019 and finish 2019 with an annual growth rate of 2.3%.¹

Locally, according to Moody’s Analytics, the Nassau County economy grew at 0.7% in the first quarter of 2019 compared to the prior quarter. That was the same rate of growth experienced over the past three quarters. Mirroring the national forecast, Moody’s anticipates continued positive economic growth locally for the remainder of the year; however, the rate of growth is expected to decline as the year progresses.

Future, slower economic growth is anticipated since first quarter economic growth was seen as being based upon temporary factors and current unresolved national trade tensions.²

Table 1 details the current Moody’s Analytics annual forecast for Nassau County’s major economic indices from 2019 to 2023.

Table 1

2019 to 2023 Nassau County Economic Forecast					
Projected Annual Growth Rates*					
	2019	2020	2021	2022	2023
GCP	2.4%	1.3%	1.8%	2.4%	2.1%
Personal Income	2.4%	1.7%	1.8%	3.1%	3.1%
Employed	1.7%	-0.1%	-0.3%	0.4%	0.5%
Unemployed	-10.9%	8.1%	23.1%	9.2%	2.7%
Unemployment %	3.1%	3.4%	4.1%	4.5%	4.6%
Non Farm Jobs	1.0%	0.6%	0.1%	0.7%	0.6%
New Mortgages	1.1%	-0.9%	7.9%	4.4%	3.6%
Mrt Refinances	61.3%	-26.8%	-17.6%	-33.5%	1.1%
Retail Sales	2.9%	1.5%	2.1%	3.3%	2.4%
Median Home Sale Price	5.4%	4.5%	4.7%	4.2%	4.5%
Regional CPI	1.9%	2.8%	3.0%	3.1%	3.0%

*Unemployment % Details Annual Average
Source: Moody’s Economy.com

Looking forward, Moody’s Analytics currently expects the local economy to move forward in a positive direction for all years surveyed. Moody’s current forecast has Nassau’s Gross County Product (GCP) growing 2.4% in 2019, 1.3% in 2020, 1.8% in 2021, 2.4% in 2022 and 2.1% in 2023.

The labor market is projected to register positive annual momentum with the number of employed residents growing by 1.7% and the number of non-farm jobs increasing by 1.0%.

¹ The Associated Press, “US Economy Grew at Solid 3.1% Rate in Q1”, LIBN.com, May 30, 2019.

² The Associated Press, “US Economy Grew at Solid 3.1% Rate in Q1”, LIBN.com, May 30, 2019.

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Positive momentum in the local housing market is envisioned in 2019; with new mortgages increasing 1.1% and median prices rising 5.4%. The mortgage refinancing market is expected to record robust growth of 61.3% in 2019 and then experience three years of negative growth.

Lastly, real personal income growth, adjusted for inflation, is projected to be positive 0.5% in 2019 which will enable the projected 2.9% increase in retail sales.

Consumption

Real GDP is a measure of the goods and services provided within an economy. When it increases, it indicates that more goods and services are being provided and therefore, more jobs and personal income are being generated.

The Commerce Department reported that May 2019 retail sales grew 0.5% from the prior month and 3.2% from the prior year. Strong annual growth was reported in non-store retailers at 11.4%, gas stations at 3.2%, and retail and food services at 3.7%. From a yearly perspective sporting goods and electronics and appliance stores fell 4.2% and 2.4% respectively.

Analysts stated that with April’s revision, sales have now increased for three straight months; with the unemployment rate at a five-decade low of 3.6% and wage gains easily outpacing inflation, consumer spending will likely keep growing this year.³

Moody’s Analytics current forecast shows a continuation of the current positive consumption trends from 2019 to 2020. Table 2 details Moody’s current quarterly forecast for Nassau County GCP, personal income, and retail sales.

³ The Associated Press, “US Retail Sales Rose 0.5% in May, Led By Online Shopping”, LIBN.com, June 14, 2019.

All variables forecasted are expected to register positive growth rates in 2019 and 2020.

Table 2

Nassau County Consumption Growth by Quarter				
	2019			
	Q1	Q2	Q3	Q4
GCP	0.65%	0.56%	0.44%	0.32%
Total Personal Income	0.68%	0.66%	0.59%	0.48%
Retail Sales	0.70%	0.56%	0.46%	0.38%
	2020			
	Q1	Q2	Q3	Q4
GCP	0.26%	0.25%	0.30%	0.38%
Total Personal Income	0.40%	0.35%	0.33%	0.35%
Retail Sales	0.33%	0.32%	0.34%	0.39%

Source: Moody's Economy.com

The first quarter 2019 Siena College Research Institute Consumer Confidence Poll found that throughout the metropolitan region, consumer sentiment is at 96.3 points displaying continuing strength in the consumer driven marketplace. The new level is 2.1 points below the nation’s index of 98.4 points. In addition, New York State buying plans for all major consumer goods remain high indicating that New Yorkers plan to buy cars, electronics, furniture, homes, and complete home improvements this spring season. For more detail on consumer buyer plans, see the sales tax section on page 5.

Labor Market

New York State Department of Labor figures show that the Nassau County labor market was strong in April 2019. Positive job growth enticed individuals to enter the labor market. The unemployment rate decreased from 3.3% to 2.9% from March 2019 to April 2019. It is the lowest unemployment rate in Nassau County in 20 years and is among the lowest jobless rate in the state.⁴

From a yearly vantage point, the labor force grew 0.9% and the number of employed residents increased 1.5%. Heightened labor participation,

⁴ Ocasio, Victor, “Long Island Jobless Rate Drops to 3.0%”, Newsday.com, May 21, 2019.

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is expected to put upward pressure on wage and the use of other benefits such as flexible work hours, according to John Rizzo, Long Island Association Chief Economist.⁵

Moody's is expecting 2019 to end the year with a 1.7% increase in the number of employed residents and a 10.9% decline in the number of unemployed residents.

Non-Farm Jobs

From an annual perspective, Long Island non-farm job growth was positive in April 2019. According to New York State Department of Labor figures, in April 2019 total non-farm jobs increased by 0.5% from the prior year. The strongest annual job growth was in the educational & health services and construction sectors, with 10,600 and 5,500 new jobs respectively. The professional and business services sector struggled the most in April 2019; it lost 6,800 jobs from the prior year.

The Associated General Contractors of America also calculated strong construction job growth on Long Island. They found that Long Island gained 5,500 construction jobs, or 7.0%, growth in April 2019 when compared to the prior year. This brings the total amount of employed in construction to 88,700 people.⁶

Moody's anticipates that Nassau County will continue to generate positive total non-farm job growth from 2019 to 2023. Table 3 details projected Nassau County job growth by sector. The growth is projected to be mixed with half of the eight sectors surveyed forecast to record positive growth in 2019. The area with the largest declining annual job growth in 2019 is the

professional and business services sector, falling -3.3%. Lastly, the construction sector is recording the strongest annual 2019 job growth of 8.2%.

Table 3

Nassau County Annual Job Growth By Sector, 2019 to 2023					
	2019	2020	2021	2022	2023
Construction	8.2%	1.4%	1.0%	1.9%	0.9%
Education & Health	3.1%	1.1%	0.4%	0.9%	0.9%
Financial Activities	-0.6%	0.1%	-0.2%	0.2%	0.2%
Government	-0.3%	0.5%	0.1%	0.5%	0.5%
High Tech	-1.3%	1.2%	0.4%	1.1%	1.0%
Leisure and Hospitality	3.7%	0.8%	0.4%	0.8%	0.8%
Professional and Business Services	-3.3%	1.2%	0.1%	1.6%	1.1%
Retail Trade	0.5%	-0.6%	-0.5%	-0.1%	-0.1%
Total Non-Farm Jobs	1.0%	0.6%	0.1%	0.7%	0.6%

Real Estate

On a year-to-date basis, through May 2019, Multiple Listing Service of Long Island figures show that Nassau County closed home sales have increased 0.2%. Coinciding with the closed sales increase was a 2.8% increase in median home sale prices. Looking forward, pending sales have risen 3.2% in Nassau County; suggesting that the County will continue to experience positive sales growth.

Analysts suggest trade up sales are contributing to the rise in closed sales. During the past two years, values of homes in the low to middle range have risen while the high-end market has softened.⁷ Increased home values have enabled homeowners to trade up into a higher priced home.⁸

The positive housing momentum, according to Long Island Business News, has contributed to Nassau's inventory level increasing 14.5% from an annual perspective.⁹

⁵ Ocasio, Victor, "Long Island Jobless Rate Drops to 3.0%", [Newsday.com](http://www.newsday.com), May 21, 2019.

⁶ Winzelberg, David, "Long Island Adds Construction Jobs in April", [LIBN.com](http://www.libn.com), May 30, 2019.

⁷ Kindall, James, "Long Island housing market allowing some to 'trade up' their homes" [Newsday.com](http://www.newsday.com), June 3, 2019.

⁸ Same as above.

⁹ Winzelberg, David, "Suffolk Home Prices Soar to Decade High" [LIBN.com](http://www.libn.com), June 12, 2019.

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Table 4

Nassau County Housing Forecast by Quarter				
2019				
	Q1	Q2	Q3	Q4
New Mortgages	-0.02%	-0.61%	-0.95%	-0.99%
Refinances	19.44%	11.79%	2.18%	-6.52%
Median Sale Price	1.77%	1.81%	1.52%	1.14%
2020				
	Q1	Q2	Q3	Q4
New Mortgages	-0.65%	0.06%	1.11%	2.08%
Refinances	-11.90%	-13.75%	-10.66%	-4.45%
Median Sale Price	0.91%	0.86%	1.00%	1.17%

Source: Moody's Economy.com

Looking forward, Table 4 depicts Moody's current Nassau County residential housing market forecast by quarter. Moody's is more pessimistic than the MSLSI pending data suggests. They envision quarterly decreasing new mortgage growth throughout 2019 leading into 2020.

Moody's predicts a decline in refinances by the fourth quarter 2019 that will spillover to 2020.

Moody's currently anticipates positive median sale prices throughout 2019 and 2020.

Prices

The Consumer Price Index (CPI) is a measure of the average change in the prices of goods and services purchased by households over time. U.S. Bureau of Labor Statistics figures show that regional consumer prices were up 1.5% in May 2019 from the prior year. Contributing to the increase were higher medical care and housing costs which rose 4.3% and 2.2% respectively from an annual perspective. Also, automobile insurance and alcohol prices both increased 2.4% and 3.0%, respectively from the previous year.¹⁰

Looking forward, from an annual perspective, regional consumer prices are expected to rise from 2019 to 2023. For example, regional consumer prices are expected to increase by 0.93% in the second quarter of 2019. The

¹⁰ Madore, James T., "Consumer Price Index Rises 1.5% in May in Metropolitan Area", [Newsday.com](http://www.newsday.com), June 12, 2019.

quarterly forecast for regional consumer prices for this period is shown in Table 5.

Table 5

Regional Consumer Price Forecast by Quarter				
	Q1	Q2	Q3	Q4
2019	0.33%	0.93%	0.74%	0.78%
2020	0.63%	0.58%	0.70%	0.71%
2021	0.74%	0.77%	0.77%	0.78%
2022	0.78%	0.77%	0.75%	0.74%
2023	0.74%	0.75%	0.76%	0.76%

Source: Moody's Economy.com

Sales Tax Predictors

Sales tax collections are a significant revenue source for the County, as such it is an important revenue to monitor and forecast. Common predictors of sales tax growth are GCP, personal income growth, growth in the number of employed residents and consumer price growth. The current Moody's regional forecast envisions positive annual growth for all these variables in 2019. Moreover, the 2019 forecast for personal income growth exceeds the forecast for consumer prices, resulting in increased consumer purchasing power.

Siena College Research Institute's, (SCRI), survey of New Yorker buying plans in the first quarter of 2019 indicate buying plans have increased for all categories from an annual perspective. Cars/trucks buying plans had the greatest growth at 74.3% when compared to the prior year. Major home improvement plans saw the slowest gain at 3.6% from a yearly perspective. The quarterly and annual percent change for these categories are shown in Table 6.

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Table 6

New York Statewide Buying Plans Survey					
Category	1Q19	4Q18	1Q18	Qtrly %	Yrly %
Car/Truck	23.7	24.4	13.6	-2.9%	74.3%
Consumer Electronics	49.4	51.1	38.2	-3.3%	29.3%
Furniture	33.9	29.6	27.4	14.5%	23.7%
Home	10.5	12.0	7.1	-12.5%	47.9%
Major Home Improvement	23.2	20.4	22.4	13.7%	3.6%
Total	140.7	137.5	108.7	2.3%	29.4%

Source: Siena College Research Institute

Consumer sentiment in New York State is well above the optimism/pessimism break-even point. However, consumers are currently showing stronger confidence in the present business and economy as opposed to the future. More than half of New Yorkers say they are better off financially today than they were a year ago according to Dr. Doug Lonnstrom, SCRI Founding Director.¹¹

Additionally, U.S. consumer spending increased 0.3% in April 2019 following a 1.1% increase in March 2019.¹² Many of these purchases were financed with debt as the Federal Reserve found that consumer borrowing increased by \$17.5 billion in April 2019, the fastest pace seen in five months.¹³

Lodging Industry

The average Hotel/Motel occupancy and daily rental rates in Nassau County, as of March 2019, are illustrated in Table 7.

Table 7

Nassau Hotel / Motel Statistics					
Average Occupancy Rate					
	Mar-19	Feb-19	Mar-18	Mthly %	Yrly %
Occupancy %	80.6%	72.5%	79.1%	8.1%	1.5%
Average Daily Rate					
	Mar-19	Feb-19	Mar-18	Mthly %	Yrly %
Rental Rate \$	\$142.83	\$134.18	\$140.99	6.4%	1.3%

Source: Long Island Convention & Visitor's Bureau

¹¹ “Quarterly New York State Index of Consumer Sentiment including Gas and Food Analysis”, [Siena College Research Institute](#), April 9, 2019.

¹² The Associated Press, “US Consumer Spending Slows in April”, [LIBN.com](#), May 31, 2019.

From an annual vantage point, the Nassau County tourism industry experienced heightened demand as average occupancy rates increased 1.5% percentage points in tandem with a 1.3% increase in average daily rental rates.

There are three sectors that drives Long Island’s \$5.9 billion industry: the beaches and parks; its wineries, breweries, vineyards and farms; and its arts and culture offerings. According to Discover Long Island, 64% of visitors are from New York State and nearby Northeast states. Tourists typically spend the day shopping and dining. Summertime is peak vacation season for Long Island due to its plentiful beaches and parks. Approximately, \$722 million is generated in tax revenues. However, limited hotel and meeting space inventory presents the biggest challenge for growth on Long Island. The lack of a convention center prevents the area from attracting the business traveler demographic. Industry experts state that additional marketing which targets visitors from long-haul destinations as well as investments in mass transit could help Long Island reach its potential.¹⁴

Looking forward, the lodging industry is expected to continue to grow in 2019. Moody’s expects leisure and hospitality employment to grow 3.7% in 2019 and 0.8% in 2020. Growth in the tourism sector is significant as it plays a major role in sales tax collections on Long Island.

Conclusion

The Nassau County economy experienced positive momentum in April 2019. The growth was broad based with positive annual sales tax growth, high regional consumer confidence, strong annual job growth which resulted in

¹³ The Associated Press, “US Consumer Borrowing Up \$17.5 Billion in April”, [LIBN.com](#), June 7, 2019.

¹⁴ Calavia-Robertson, Daysi, “Three Sectors Drive LI Tourism, but Key Factors Hold Back Growth, Experts Say”, [Newsday.com](#), May 17, 2019.

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positive annual labor force growth, increased home sales and positive median home price appreciation.

Looking forward, 2019 economic growth at both the national and regional levels is expected to be slower but remain positive from an annual perspective.

Monitoring of the economy is critical as any greater than anticipated slowdown in the economy could trigger a recession. The May 2019 Survey of Professional Forecasters by the Federal Reserve Bank of Philadelphia found an 11.9% rise of a negative quarter of real GDP in the second quarter of 2019. The third quarter's risk was assessed at 13.1%

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