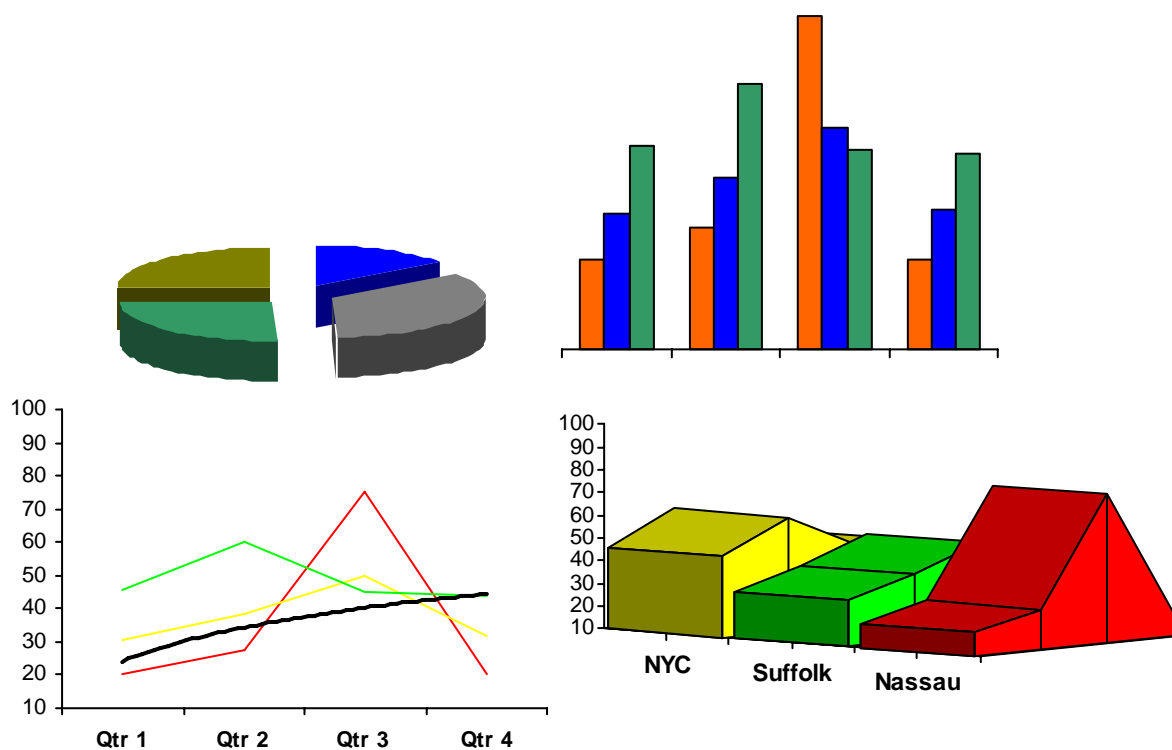




NASSAU COUNTY LEGISLATURE

Office of Legislative Budget Review

Nassau County Economic Indicators



March 2006



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DIRECTOR
OFFICE OF LEGISLATIVE
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: March 31, 2006

Re: March 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.

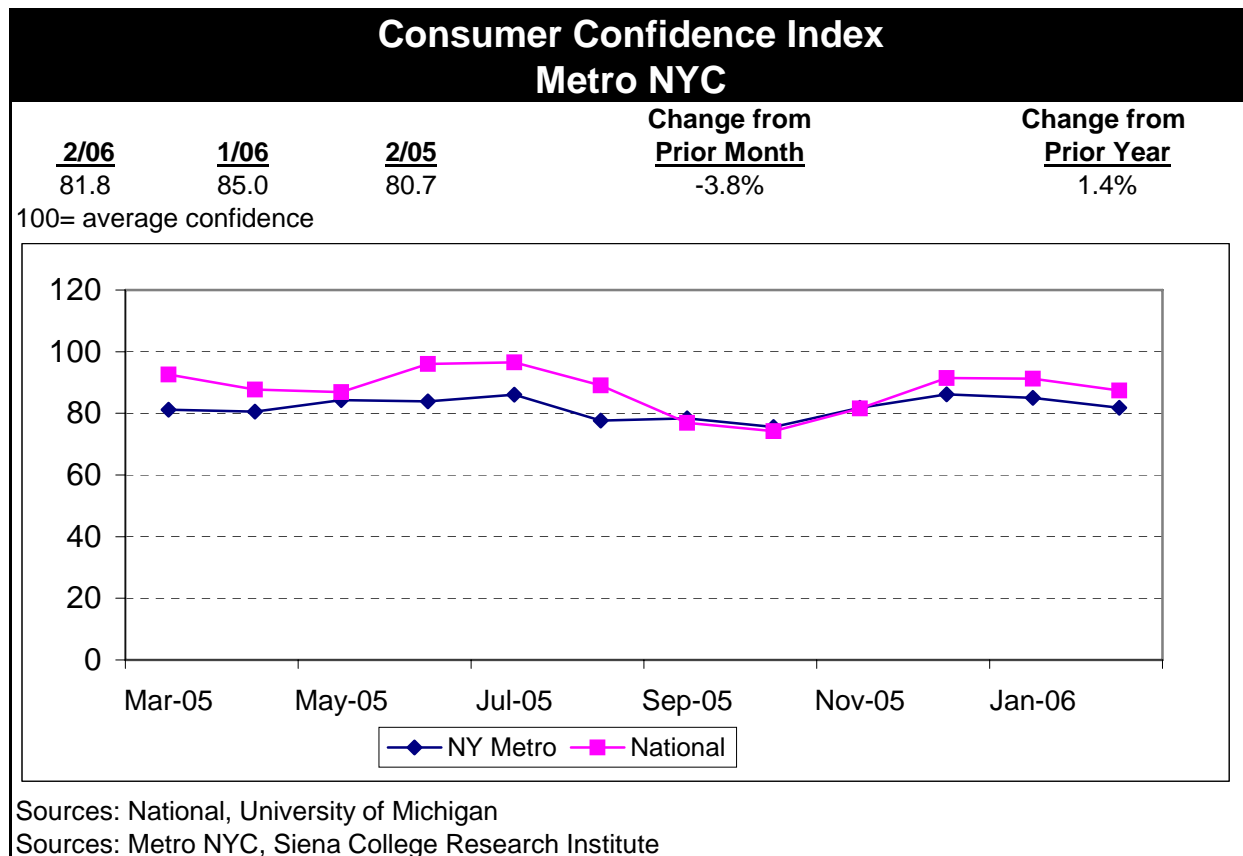
cc: Hon. Howard Weitzman, County Comptroller
David Gugerty, Majority Counsel
Mark Young, Budget Director
Richard Luke, Executive Director, NIFA
Dan McCloy, Special Assistant Minority
Ed Ward, Special Assistant to Minority
Tom Stokes, Deputy County Executive
Carol Trottere, Majority Press Secretary
Marilyn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

March 2006 Monthly Economic Indicators Report

The economy got off to a slow start in the beginning of 2006. From a monthly perspective consumer confidence fell, the number of employed residents fell, national retail sales fell, housing growth rates fell, and average room rental rates declined. Surveys show that the future should be brighter in the employment market. Hopefully, this will spur on greater economic activity.

Consumer Confidence Index

In February 2006 consumer confidence fell regionally and nationally from a monthly perspective. From an annual perspective regional consumer confidence increased 1.4% and national consumer confidence fell 7.1%. The chart below details the monthly changes recorded by both the national and regional consumer confidence indices over the prior year.



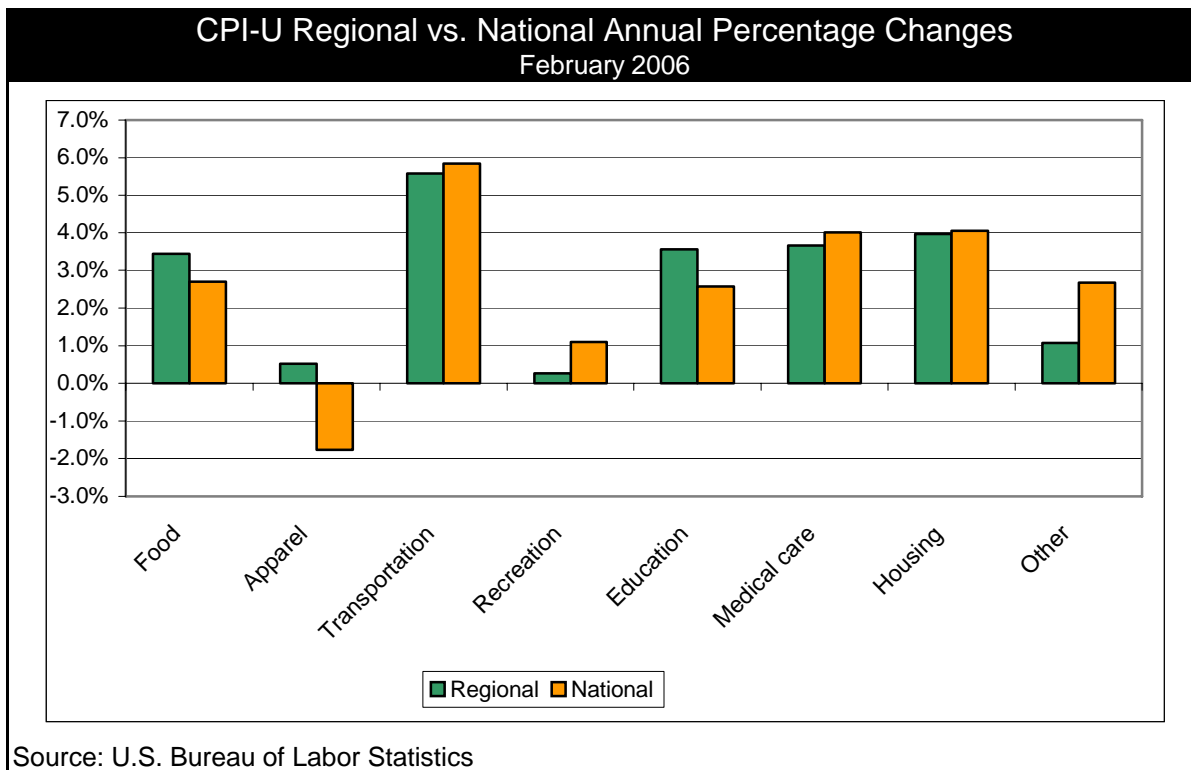
Contributing to the monthly declines seen in regional and national consumer confidence were the monthly employment and job declines detailed below. According to a survey by Dowling College, the confidence in the local economy reported by Long Island business owners is at its lowest point since 1996. High housing costs and fears of another terrorist attack were cited as reasons for their low level of confidence in the regional economy. Despite the lack of confidence, many employers polled plan to expand their operations during the coming year.¹

¹ Weber, Lauren, "Poll: Biz Growth Amid Doubts on LI", [Newsday.com](http://www.newsday.com), March 7, 2006.

Coinciding with the weakened consumer confidence, national retail sales fell 1.3% in February 2006. Excluding auto sales, retail sales fell 0.4% in February 2006. Analysts had been forecasting a decline in February retail sales especially since January 2006's retail sales were so robust. The Commerce Department revised their initial 2.3% January retail sales growth up to 2.9%.²

Looking ahead, the economy seems poised for a rebound in retail sales. Nationally, the average hourly pay of workers jumped 3.5% nationally in February 2006.³ Additionally, the average tax refund is up nearly 5% from the prior year according to the Internal Revenue Service.⁴ These new revenues could facilitate an increase in retail sales and subsequent County sales tax collections. There is the possibility that if individuals chose to save the new revenues instead of making purchases, then there would be no boost to County sales tax collections. Unfortunately, the latest Principal Financial Well-Being Index found that nationwide individuals plan on being more responsible with their refunds. Only 7% of those surveyed said that they would use their refund to purchase big ticket items. That is down from 16% in 2003.⁵

Consumer Price Indexes



Consumer prices increased both nationally and regionally from both a monthly and an annual perspective in February 2006. From an annual perspective, national and regional prices rose. Regionally and national consumer prices appreciated at the same annual rate of growth. The chart above details the annual changes seen in both the regional and national consumer price indices. Regionally, the

² “Retail Sales Fall, But Spending Continues”, CNN/Money.com, March 14, 2006.
³ “Wage Growth Jumps, More Rate Hikes Likely”, CNN/Money.com, March 10, 2006.
⁴ Seid, Jessica, “Tax Refunds on the Rise”, CNN/Money.com, March 7, 2006.
⁵ Same as above.

greatest increases were posted in the transportation and housing sectors. Similarly, throughout the nation, the transportation and housing sectors recorded the highest annual growth.

Monthly regional declines in the Education, Other, Recreation and Transportation categories constrained the increase in the all-items index. The monthly decline in the transportation category was a result of the 2.0% fall in gasoline prices. The trend will reverse itself. As of March 27, 2006 the Lundberg Survey of 7,000 gas stations nationwide found that gas prices were 40 cents higher than the prior year.⁶ Regional medical costs exhibited one of the highest monthly increases. This is indicative of a national trend. According to the Centers for Medicare and Medicaid Services, healthcare spending is outpacing the growth of the American economy and will consume 20% of gross domestic product by 2015. In 2004, healthcare spending accounted for about 16% of U.S. GDP.⁷

Consumer Price Indexes					
New York-Northern Jersey-Long Island, NY-NJ-CT-PA region					
	<u>2/06</u>	<u>1/06</u>	<u>2/05</u>	Change from Prior Month	Change from Prior Year
US City, CPI-U	198.7	198.3	191.8	0.2%	3.6%
Regional CPI-U	216.4	215.9	208.9	0.2%	3.6%
Core CPI-U (All Items less energy)	221.6	220.1	215.7	0.7%	2.7%
Medical	336.9	333.0	325.0	1.2%	3.7%
Housing	230.9	230.6	222.1	0.1%	4.0%
Gasoline (all types)	183.1	186.8	172.0	-2.0%	6.5%

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

⁶ “Gas Prices Jump Nearly 15 Cents Per Gallon”, [Newsday.com](http://www.newsday.com), March 27, 2006.

⁷ “Healthcare Spending Eating Up GDP”, [CNN/Money.com](http://www.cnn.com), February 22, 2006.

Local Area Employment Figures

The employment market took a step back in January 2006. The number of employed residents fell from a monthly perspective in both Nassau and Suffolk Counties. Additionally, the number of unemployed residents and the unemployment rate increased from a monthly vantage point on Long Island. Fortunately, the monthly loses were not sizeable enough to erase the strides made over the prior year.

Divergent employment forces were at work in New York City where the number of employed residents grew from both a monthly and an annual perspective. From a monthly perspective, New York City recorded an increase in unemployed residents. However, much of the increase in unemployed residents may be attributed to monthly labor force growth. Labor force growth is seen as an indicator of a healthy economy.

Despite the monthly set-back in Long Island employment and the fall in Long Island business owners, the latest Manpower Employment Outlook Survey on Long Island found that one third of the companies' surveyed plan to hire employees between April and June of 2006. That is up from the prior year when 20% of companies surveyed planned to hire during the same time-period.⁸

The chart below details these labor market changes.

Comparison of Employment Statistics (figures in thousands)					
	<u>1/06</u>	<u>12/05</u>	<u>1/05</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Nassau					
Employed	665.2	671.8	652.6	-1.0%	1.9%
Unemployed	27.7	26.7	31.1	3.7%	-10.9%
Unemployment rate	4.0%	3.8%	4.5%	5.3%	-11.1%
Suffolk					
Employed	745.5	752.8	731.3	-1.0%	1.9%
Unemployed	33.5	30.8	37.7	8.8%	-11.1%
Unemployment rate	4.3%	3.9%	4.9%	10.3%	-12.2%
NYC					
Employed	3,559.7	3,465.9	3,552.2	2.7%	0.2%
Unemployed	221.3	211.4	228.8	4.7%	-3.3%
Unemployment rate	5.9%	5.6%	6.2%	5.4%	-4.8%

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

⁸ Marshall, Randi F., "Survey: Island Job Outlook Brightens", Newsday, March 14, 2006.

Nassau-Suffolk Non-agricultural Employment

Non-agricultural Employment Nassau-Suffolk Area (figures in thousands)					
	<u>1/06</u>	<u>12/05</u>	<u>1/05</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Educational & Health Services	196.2	205.1	194.5	-4.3%	0.9%
Financial Activities	80.9	81.9	81.5	-1.2%	-0.7%
Government	198.2	204.0	198.3	-2.8%	-0.1%
Information	29.3	29.7	28.9	-1.3%	1.4%
Leisure & Hospitality	86.9	92.7	84.5	-6.3%	2.8%
Manufacturing	86.5	88.1	87.0	-1.8%	-0.6%
Natural Resources, Construction & Mining	61.6	68.1	60.5	-9.5%	1.8%
Other Services	51.7	52.7	50.9	-1.9%	1.6%
Professional & Business Services	153.1	162.1	149.1	-5.6%	2.7%
Retail Trade	162.3	173.2	160.9	-6.3%	0.9%
Transportation, Warehousing & Utilities	37.2	38.7	36.4	-3.9%	2.2%
Wholesale Trade	70.5	72.6	71.1	-2.9%	-0.8%
Total	<u>1,214.4</u>	<u>1,268.9</u>	<u>1,203.6</u>	<u>-4.3%</u>	<u>0.9%</u>
Source: NYS Department of Labor					

Long Island suffered a set-back on the job front in January 2006. Every sector surveyed recorded a monthly job decrease. Much of the monthly declines may be attributed to seasonality. Last year at this time, total job growth fell 4.6% from the prior month. The largest monthly declines were recorded in the Natural Resources, Construction & Mining, Leisure & Hospitality, and Retail Trade sectors.

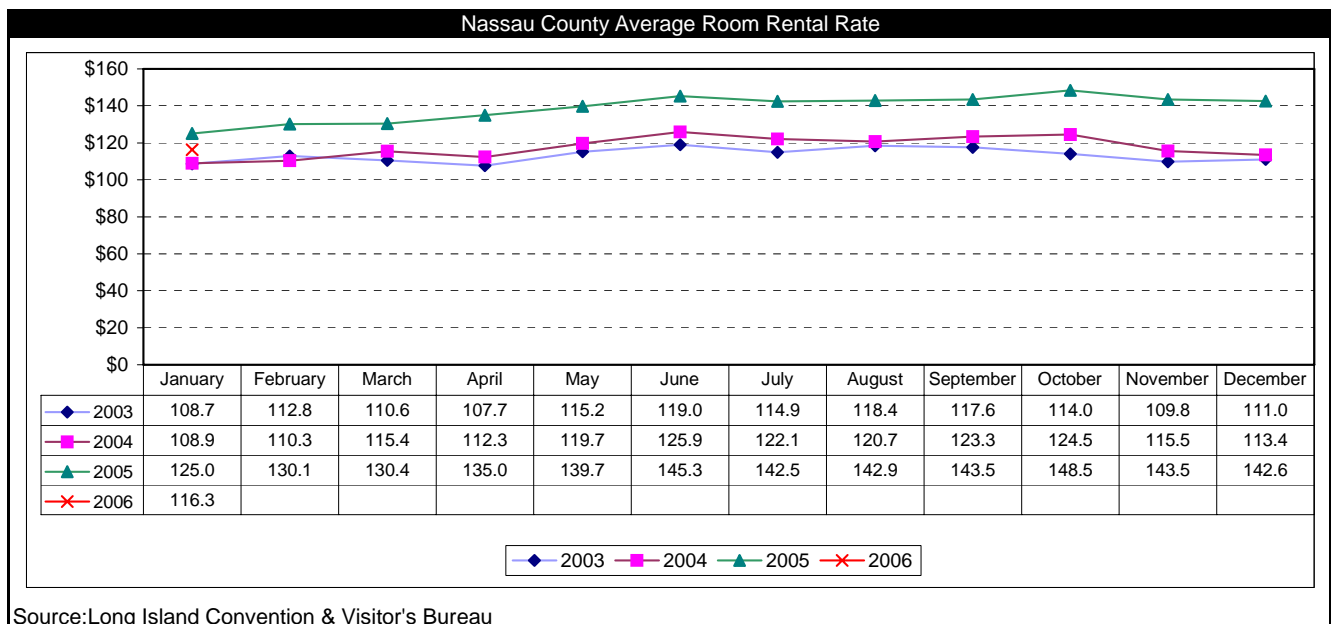
The monthly decreases were not significant enough to erase the job gains made over the previous year. From an annual perspective, Long Island has 0.9% more jobs currently than it did at this time last year. The annual job gains were diversified with eight of the twelve sectors recording annual increases. The greatest increases were seen in the Leisure & Hospitality and Professional & Business Services sectors.

Based on the most recent Manpower and Dowling College surveys detailed above, the Long Island region should experience positive job growth over the next few months.

The Lodging Industry

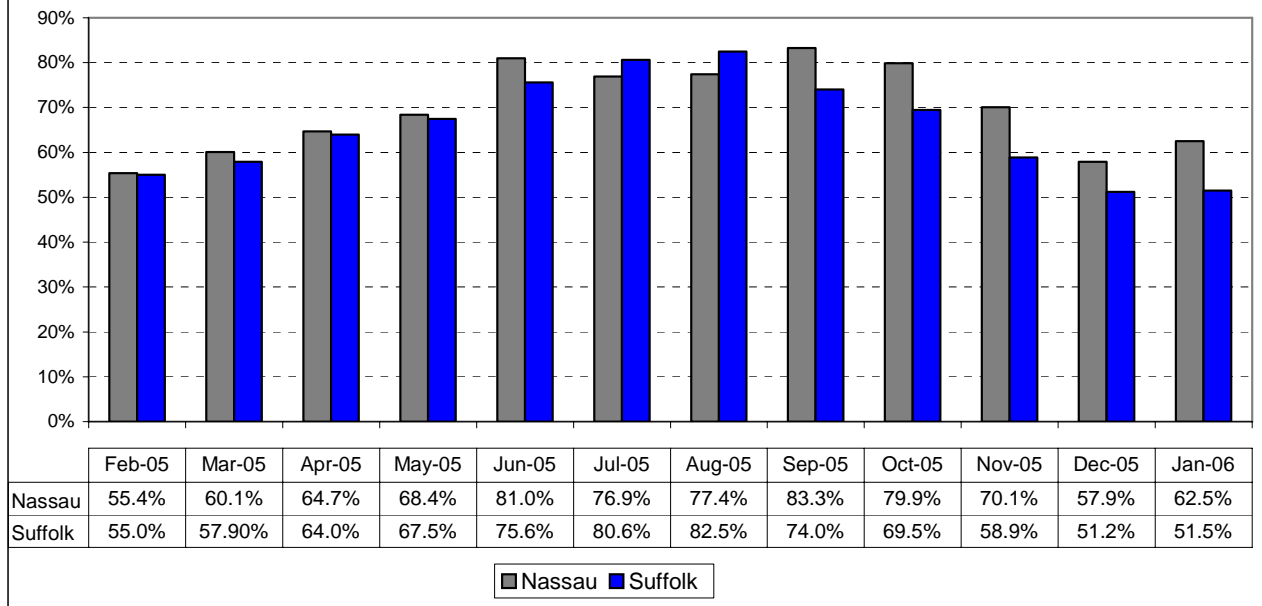
In 2005, County Hotel/Motel tax collections increased 17.0%. A large part of the increase in tax collections was due to the 25.7% increase in average room-rental rates. In contrast to the prior year’s upward trend, Nassau County’s average-room rental rate decreased in January 2006 on both a monthly and annual basis by 18.4% and 7.0% respectively. It is possible that 2006 Hotel/Motel tax collections will fall short of their 2005 level.

Occupancy rates increased by nearly 7.9% since December 2005 and rose nearly 25% annually. As the chart below illustrates, average rental rates for Nassau County’s hotel rooms were \$116.3 in January 2006, or 19.5% less than the average rental rate of \$139.0 over the past 12 months and 5.8% less than the average \$123.0 rental rate over the past four years.



Suffolk County experienced similar occupancy rate increases as Nassau County by month over the past year, shown in the chart below.

Hotel/Motel Occupancy Rates by Month



Source: Long Island Visitor Information Bureau

According to Robert Lipper of Island Publications, a Newsday subsidiary that tracks the lodging industry, hotel expansion in Long Island has been particularly strong over the past few years. Lipper reports that 2,167 new rooms have appeared on the market and four hotels are due to open this year. The increase in hotel rooms has led to fierce competition in the lodging industry. For some hotels, lowering average room rates is not an option. Instead, they have elected to exit the lodging industry. The Garden City Hotel is seeking to convert four of its nine floors into residential units. By entering the residential market, they hope improve their bottom line.⁹

According to a national forecast, the U.S. lodging industry will generate \$1.6 billion in fees and surcharges in 2006, or a 7% increase over the \$1.4 billion generated in 2005. Besides a 3.1% increase in occupied rooms in 2006, the remaining percentage of the increase in fees and charges will result from the number of hotels charging fees and surcharges, and the increasing range of fees and surcharges.¹⁰

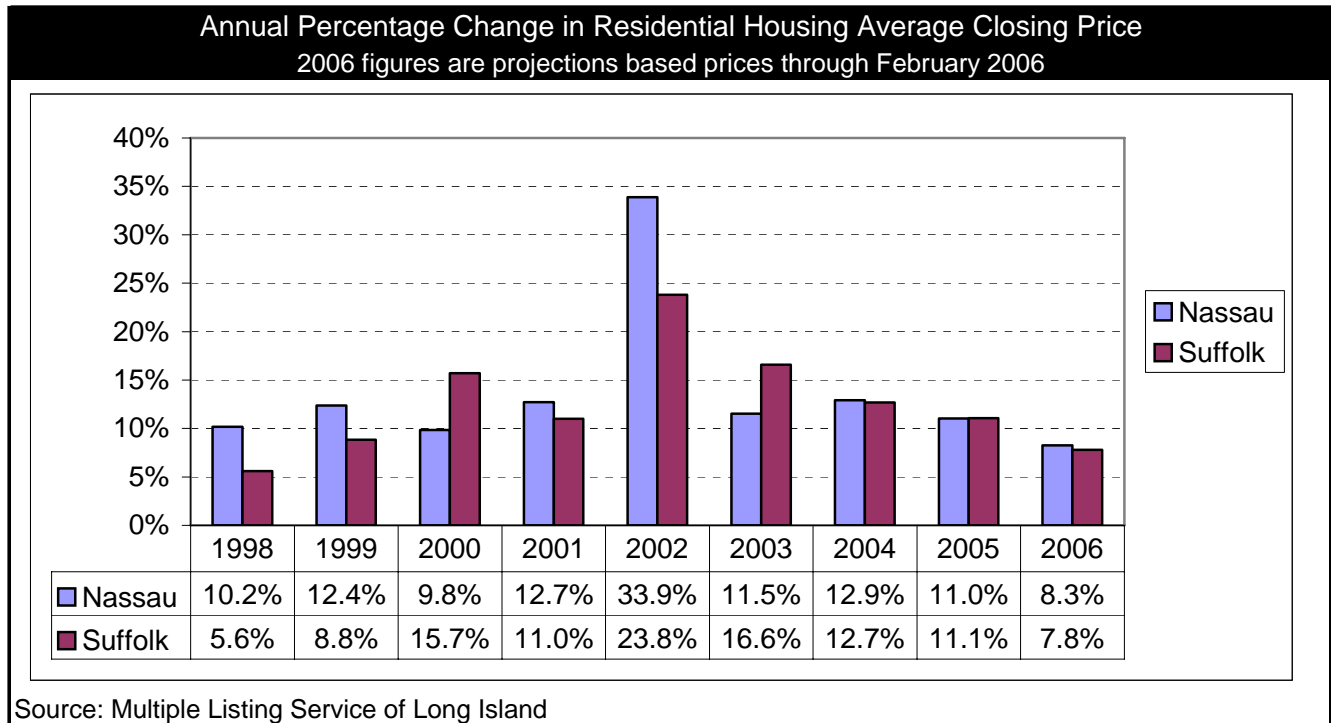
Residential Housing Market

In February 2006, the residential housing market on Long Island slowed down in terms of home price appreciation, inventory levels and transactions. Higher interest rates are placing 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 mortgage applications to decline. The chart below reveals if current housing trends continue, Nassau County home prices would appreciate 8.3% in 2006. This would be the lowest rate of growth seen in Nassau County since 1998.

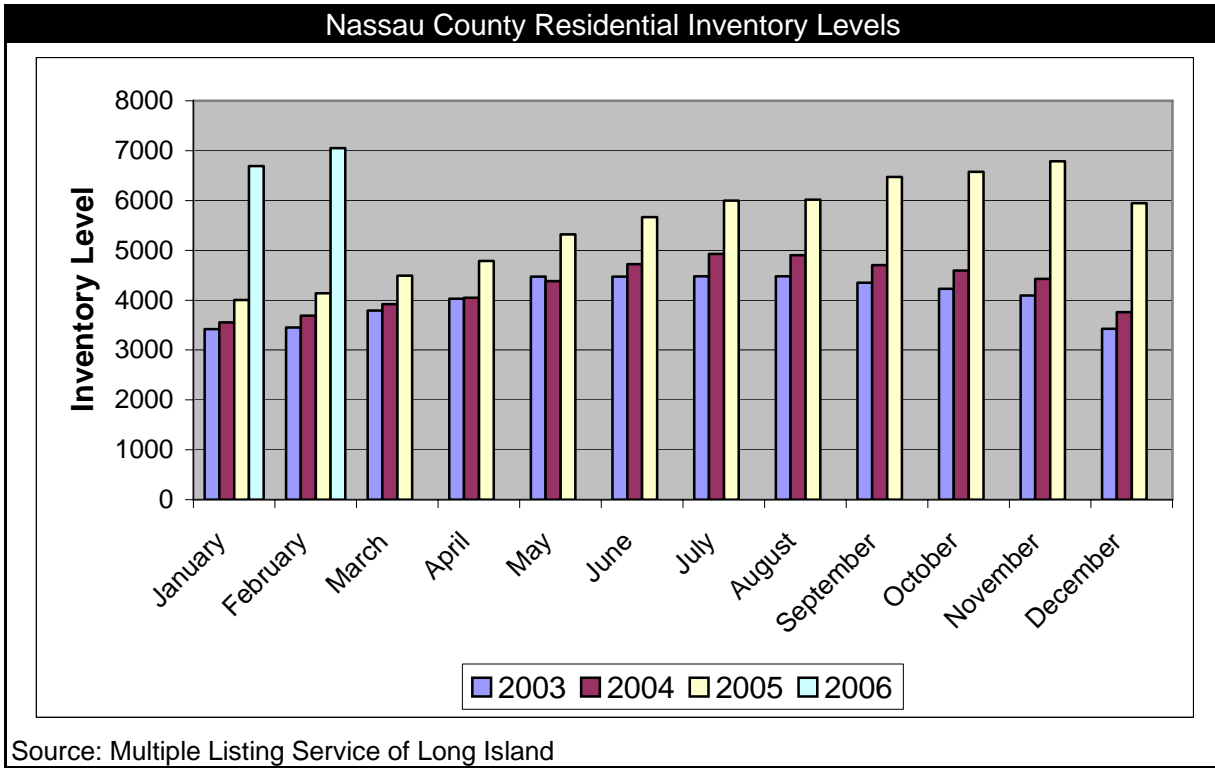
⁹ "Garden City Hotel Execs Think 'Condo'", [Newsday.com](#), March 20, 2006.

¹⁰ "Pricewaterhouse Coopers Forecasts U.S. Lodging Industry Will Generate Record \$1.6 Billion in Fees and Surcharges in 2006", [Hotels Magazine](#), March 20, 2006.

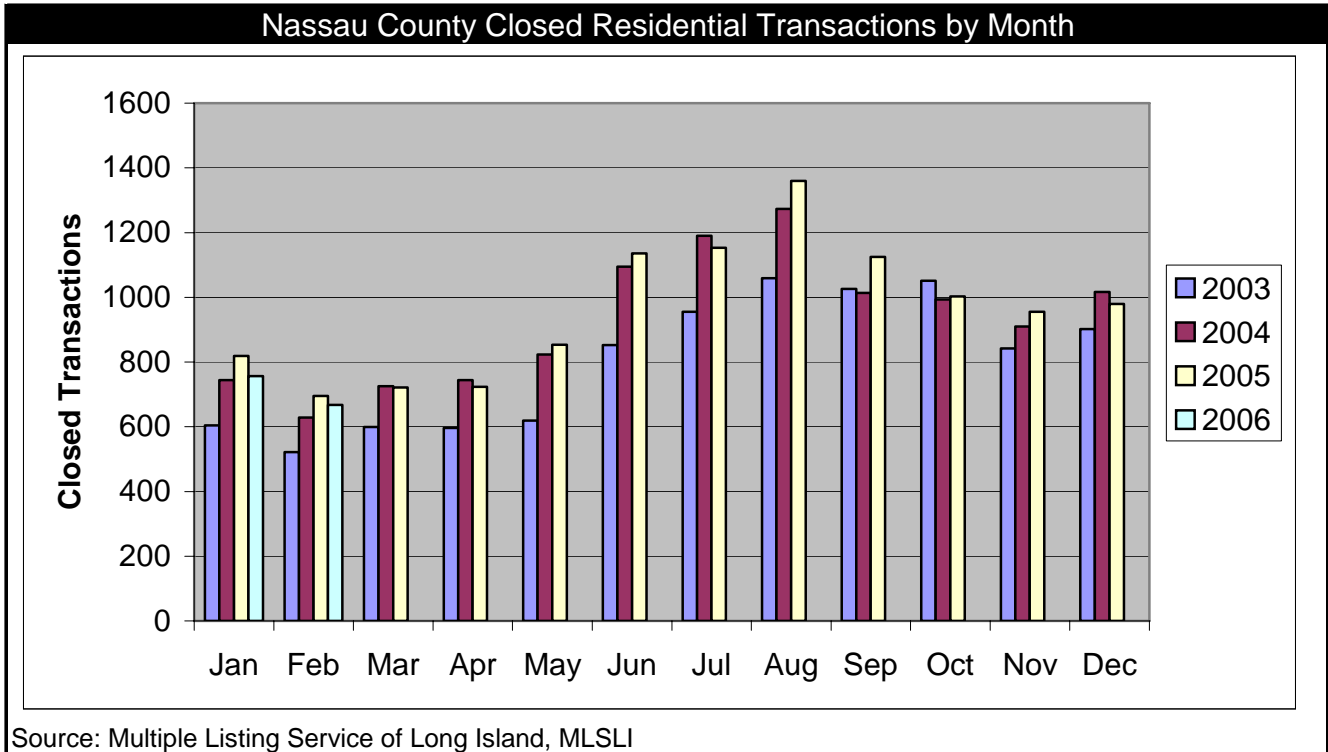
The average closing price in Nassau County during February 2006 was \$630,300, up 8.7% from the prior year. In Suffolk, the average closing price during the month of February 2006 was \$462,300, an increase of 10.2%.



Long Island’s housing market is cooling off in terms of inventory levels. High-inventory levels are generally seen as a precursor to a slowdown in the housing market. Compared to this time last year, the number of unsold homes in Nassau is up 70.5%. In Suffolk County residential inventory levels have increased 65.9% from February 2005. February 2006 marked the first time in the past four years that there have been more than 7,000 homes available for sale in Nassau County. Suffolk County recorded a similar record by registering more than 10,000 homes for sale. The chart on the following page details residential inventory levels in Nassau County by month over the past four years.



The chart below details closed residential transactions in Nassau by month over the past four years. In February 2006 there were 667 closed transactions in Nassau County. That represents a 4.0% decrease from February 2005's level.



Looking forward, on March 28, 2006, the Federal Reserve Bank raised rates for the fifteenth consecutive time. The quarter-point rate increase brought the Federal Funds Rate up to 4.75%.¹¹ This interest rate increase should continue to dampen the housing market and result in less County Clerk fee revenues. County Clerk fees, such as the mortgage recording fee and deed recording fee, are heavily dependent on the number of closed transactions. As the growth in closed transactions declines, so will the growth in County Clerk fee revenue.

Conclusion

Although the economy appears to be losing speed from a monthly perspective, from an annual perspective, employment, job and confidence indices showed positive growth. Since many of the monthly declines in the employment market were attributed to seasonality and recent surveys reveal plans to hire in the future, economic growth rates should accelerate throughout 2006.

¹¹ “Fed Raises Rates in Bernanke’s First Meeting”, CNN/Money.com, March 28, 2006.